United States Steel Corporation

1979 ANNUAL REPORT

Seventy-Eighth Annual Report/United States Steel Corporation

600 Grant Street, Pittsburgh, Pa. 15230

STOCKHOLDER INFORMATION

Notice of Annual Meeting

The 1980 Annual Stockholders' Meeting will be held in San Francisco, California, in the Masonic Auditorium, 1111 California St., on Monday, May 5, 1980 at 10:00 A.M.

Availability of Form 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission will be available in April. A copy may be obtained by writing to the Secretary, U. S. Steel Corporation, Room 6026, at the address listed below.

Availability of Order of the Securities and Exchange Commission (SEC)

On September 27, 1979, the SEC issued an Order instituting administrative proceedings regarding the adequacy of U. S. Steel's disclosures concerning environmental matters and accepting an offer of settlement which the Corporation submitted solely to settle the proceedings. A copy may be obtained by writing to the Secretary, U. S. Steel Corporation, Room 6026, at the address listed below.

Corporate Headquarters

600 Grant St., Pittsburgh, Pa. 15230
Telephone (412) 433-1121

Dividend Reinvestment Plan

Shareholders of record can automatically have their common stock dividends reinvested in additional shares of stock and/or purchase a limited amount of additional shares without any brokerage commission or service charge through U. S. Steel's Dividend Reinvestment Plan. For a prospectus explaining the plan in detail, write U. S. Steel Corporation, Stock Transfer Department at the address listed below.

Principal Stock Transfer Office

U. S. Steel Corporation, Stock Transfer Department
Room 3381, 600 Grant St., Pittsburgh, Pa. 15230
Telephone (412) 433-4801

Stock Exchange Listings

New York Stock Exchange, Midwest Stock Exchange
Pacific Stock Exchange, Montreal Stock Exchange

Independent Accountant

Price Waterhouse & Co.
600 Grant St., Pittsburgh, Pa. 15219

Stockholders—Common Stock
December 31, 1979

	Holders	Shares
Registered in name of:		
Individuals		
Women	93,422	13,674,552
Men	68,333	12,057,849
Joint Accounts	69,153	11,010,493
Total Individuals	230,908	36,742,894
Nominees, Brokers & Others	24,432	50,013,168
Total	255,340	86,756,062

No individual held of record as much as one-tenth of one percent of the common stock. Stock registered in the name of nominees, brokers and others is owned by insurance companies; various charitable, religious and educational organizations; pension funds; investment companies; trustees, custodians and estates; and others, including many individuals.

Note:

In this Report, amounts in round numbers are approximate. U. S. Steel refers to parent corporation, subsidiaries, or both, as required by context.

USS is a trademark of U. S. Steel.

U. S. Steel's new 5,000-ton-per-day computer-controlled blast furnace at Fairfield (Ala.) Works is operated from this closed circuit TV-equipped command post. A casting of molten iron from the furnace is shown at far right.

The Year 1979 for U.S. Steel—At a Glance

Dollars in Millions (except as noted)

		1979	1978	% Change
Sales	For the year	**$12,929.1**	$11,049.5	+17
Income (Loss)	Operating income (excludes items shown below)	**$ 261.5**	$ 286.1	− 9
	Interest, dividends, other income; and interest and other financing costs	**12.0**	(36.1)	
	Income before items shown below	**273.5**	250.0	+ 9
	Unusual items	**(949.9)**	—	
	Provision (credit) for United States and foreign income taxes	**(293.0)**	8.0	
	Income (loss) before cumulative effect on prior years of changes in accounting principles	**(383.4)**	242.0	
	Cumulative effect on prior years of changes in accounting principles	**90.4**	—	
	Income (loss)	**$ (293.0)**	$ 242.0	
	Income (loss) per share (in dollars)—primary —before cumulative effect on prior years of changes in accounting principles	**$ (4.46)**	$ 2.85	
	—cumulative effect on prior years of changes in accounting principles	**1.05**	—	
	—Income (loss)	**$ (3.41)**	$ 2.85	
	Return on sales	**(2.3)%**	2.2%	
	Return on common stock equity—year-end	**(6.0)%**	4.6%	
Dividends and Income Reinvested	Paid as dividends—total	**$ 137.5**	$ 135.9	+ 1
	—per common share (in dollars)	**1.60**	1.60	—
	Income reinvested	**(430.5)**	106.1	
Plant and Equipment Expenditures	Spent in year—total	**$ 979.0**	$ 667.8	+47
	—environmental control	**215.0**	135.0	+59
	Authorized but unexpended at year-end	**1,030.0**	1,045.0	− 1
Working Capital	At year-end	**$ 1,045.9**	$ 1,363.8	−23
Capitalization	Total long-term debt, notes payable & minority interests	**$ 2,559.1**	$ 2,442.3	+ 5
	Redeemable preferred stock of consolidated subsidiary	**500.0**	500.0	—
	Common stock equity	**4,894.6**	5,281.0	− 7
	Total capitalization—year-end	**$ 7,953.7**	$ 8,223.3	− 3
Stockholders	Number at year-end	**255,340**	258,239	− 1
Common Stock Price	Year-end market price per share	**$ 17½**	$ 21¼	−18

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To the Stockholders

During the decade of the Seventies, significant progress was made by U. S. Steel in many areas, particularly in nonsteel businesses. However, many of the problems that plagued steel operations at the beginning of the decade still remain as current problems. These include inadequate productivity improvement, cost-price pressures, imports, environmental requirements, government regulation and capital shortages.

In 1979, your management team, fully supported by the Board of Directors, made a number of critical decisions—many unpleasant—but nevertheless essential for the long-term prosperity of the company. Included in these decisions were plans for the permanent shutdown of many marginal operations. Sales revenues from these operations amount to about five percent of total sales. However, with improved utilization of our remaining facilities, a significant amount of this potential revenue loss will not materialize.

Steel operations at Gary (Ind.) Works, South (Chicago, Ill.) Works, Fairfield (Ala.) Works and Texas Works were continued although currently unprofitable. Much of the steelmaking equipment at these locations is technologically modern and competitive. In addition, with the programs already under way, improvements in operating performance and productivity had already been accomplished by year-end. Further improvements are expected in 1980 even though the demand for steel is expected to be lower.

Operating income for 1979 was $261.5 million, compared with $286.1 million in 1978. However, as a result of certain unusual items (including an estimated provision for shutdown liabilities) partially offset by the effect of certain changes in accounting principles, a loss after taxes of $293.0 million was reported for the year, compared with net income of $242.0 million in 1978. (Details are covered beginning on page 4 and in Notes 3, 19, 20 and 21 to Financial Statements.)

We deeply regret the impact of the plant closings on the more than 11,000 employees, their families, and the communities in which the facilities are located. When it has been necessary to discontinue operations in the past, U. S. Steel has worked closely with the local communities in converting the sites to other job-producing, tax-paying businesses. Similar efforts are already under way to make the affected plant sites productive income sources for the communities and for their citizens.

U. S. Steel's benefit programs will greatly alleviate the financial impact of the closings on employees. Many are eligible for employment in other U. S. Steel plants. Virtually all are entitled to unemployment compensation, and most are also entitled to supplemental unemployment benefits. Nearly 70 percent of those affected qualify for immediate or deferred pensions. Those immediately pensioned will also continue to have life and health insurance benefits.

For many years, U. S. Steel and other steel companies have spoken out on the problems of inflation, unfairly priced steel imports, lagging productivity improvement, inadequate capital cost recovery allowances, direct and indirect control of steel prices, and unrealistic environmental control regulations. While these problems were not the sole reasons behind the shutdowns, they certainly played a major cumulative role in many of them. Without solutions to these problems, the domestic steel industry will not be able to revitalize and earn a competitive rate of return on the massive investments required. As a result, the industry will most likely be faced with more shutdowns and more lost jobs—and the United States will become more dependent on foreign producers to supply its steel needs, as it has with oil.

Looking to the Eighties

We are confident that U. S. Steel is starting the decade of the Eighties a stronger, more competitive enterprise. We will continue to invest in steel or other businesses where there is a competitive return. Our objective is to attain a competitive rate of return on assets employed in steel operations and those businesses—the nonsteel segments—whose success is not dependent on the Corporation's

being in the steel business. Our planning is geared to maximize the utilization of all assets and to take full advantage of manufacturing, marketing and financial strengths. This includes making the best use of those assets, such as land and mineral resources, that are not an integral part of our operating facilities, whether by joint venture, sale or direct investment.

In the past five years, U. S. Steel has invested over $4.3 billion in all of its businesses. Of this amount, $2.1 billion has primarily been for investments to reduce steelmaking costs, $1.6 billion for expansion and growth of nonsteel businesses, and $.6 billion for non-income producing environmental facilities.

To modernize, grow with markets and remain competitive, capital needs of U. S. Steel and the domestic steel industry in the next decade will be more than double the level of spending in the past ten years. This can be accomplished if there is provision in our tax laws for competitive capital recovery allowances, if there are improved cost-price relationships, if there is increased productivity, and if trade laws are enforced. Until these changes occur, however, it is essential to direct available funds where they will provide the greatest return. During both the past five year period and the past ten year period, U. S. Steel's nonsteel businesses have been profitable and virtually self-sufficient in terms of cash flow. The steel business has not. Until the economics of steel investments improve, the only responsible choice is to direct discretionary capital spending in steel toward maximizing return on investments already in place—not for major expansion of capacity to meet growing domestic steel demand.

We have established the foundation for improved profitability in both steel and nonsteel businesses. Our job, however, is not complete. We must now build on this foundation by making our remaining facilities more competitive. We are confident that we will meet this challenge and that the Eighties will be a decade of progress for U. S. Steel.

D. M. Roderick

Chairman, Board of Directors

February 26, 1980

★ ★ ★ ★ ★ ★

The year was darkened by the death of Edgar B. Speer, former Chairman of the Board and Chief Executive Officer. Throughout his 41 years with the Corporation, Ed Speer's influence and contributions extended not only to U. S. Steel, but to the American steel industry and the world steel industry as well. He was a true man of steel in every sense.

The Year 1979

FINANCIAL SUMMARY

Income before unusual items, taxes on income, and the cumulative effect on prior years of changes in accounting principles was $273.5 million in 1979, compared with $250.0 million in 1978. After all charges, a loss after taxes was reported for the year in the amount of $293.0 million, compared with income of $242.0 million in 1978. (Details of unusual items and changes in accounting principles are covered below and in Notes 3, 19, 20 and 21 to Financial Statements.)

Steel Manufacturing reported an operating loss for the year of $102.5 million, compared with operating income of $25.5 million in 1978. Operating income for the nonsteel business segments improved significantly in 1979.

Charles G. Schwartz *Secretary*; Marion G. Heatwole *General Counsel*; W. Bruce Thomas *Executive Vice President—Accounting and Finance*; William R. Roesch *President*; David M. Roderick *Chairman of the Board*

FACILITY SHUTDOWNS

Following a comprehensive review of all operations, management recommended and the Board of Directors approved the permanent shutdown of a number of facilities. Operations at these facilities have been marginal and, in total, recorded losses in each of the last four years.

The estimated provision for shutdown of facilities charged to income in 1979 was $808.6 million before tax provisions. The principal item, about $413.3 million, is for benefits to which affected employees are entitled—including early pensions, continued life and health insurance, supplemental unemployment, and severance pay. The remaining provision covers undepreciated book value of the assets, dismantling expenses, contract termination costs, and estimated losses until shutdown is complete.

Steel Manufacturing

Major facilities being permanently shut down include Youngstown (Ohio) Works; New Haven (Conn.) Works; Torrance (Cal.) Works; Joliet-Waukegan (Ill.) Works, except for a rod mill at the Joliet plant; the wire mill and 140″ plate mill at Fairfield (Ala.) Works; wheel and axle manufacturing operations at McKees Rocks, Pa.; the 80″ hot strip mill at Gary (Ind.) Works; the iron foundry at South (Chicago, Ill.) Works; and the rod mill at Pittsburg (Cal.) Works.

Steelmaking capability will be reduced about three percent due to the shutdowns. For the most part, this is a reduction of peak operating capability only, since a number of the products produced at the affected locations will continue to be furnished to customers from other Corporation mills.

The Corporate Policy Committee formulates and approves corporate policies, plans, objectives, organization structure and executive development, and provides counsel and policy direction for the Corporation and its associated subsidiaries. The Committee also appoints corporate officers other than those elected by the Board and authorizes various activities in connection with the conduct of the business of the Corporation.

This is one of 18 huge electric shovels that scoop up low-iron content taconite ore for processing at U. S. Steel's expanded Minntac (Minn.) iron ore concentrating facilities. The taconite is upgraded into high-grade iron pellets for blast furnace consumption.

Nonsteel Industry Segments

Units being shut down include American Bridge Division's (ABD) steel fabricating plants at Los Angeles, Cal., and Gary, Ind. The decision to close the Los Angeles plant was due to the continuing high level of imported fabricated steel and steel mill products on the West Coast. ABD's hourly employment costs at Gary, as well as at its Ambridge (Pa.) and Shiffler (Pa.) plants, are tied to the Basic Steel Labor Agreement. These costs are substantially higher than those of ABD's structural steel fabricating competitors —as much as $5 per hour and an average of $3.50 per hour. These labor cost differentials exist with many competitors whose employees are represented either by the United Steelworkers of America or by other unions. After employees at Ambridge and Shiffler voted to execute revised labor contracts, the decision was made to continue operations at these locations. We are confident that with revised labor contracts, these operations will become more competitive. Also being shut down are Universal Atlas Cement Division's Universal (Pa.) cement plant and the gray cement facilities at Buffington, Ind., and Northampton, Pa.; United States Steel Supply Division's container manufacturing plants at Chicago, Ill., and Camden, N.J. In addition, an unprofitable wholly owned subsidiary was sold.

OTHER UNUSUAL CHARGES

Other unusual charges against income in 1979 totaled $141.3 million. These charges included estimated provision for occupational disease claims for former employees in coal operations and revaluation of certain investments.

CHANGES IN ACCOUNTING PRINCIPLES

Other adjustments to income in 1979 included the retroactive effects of adopting two preferred methods of accounting.

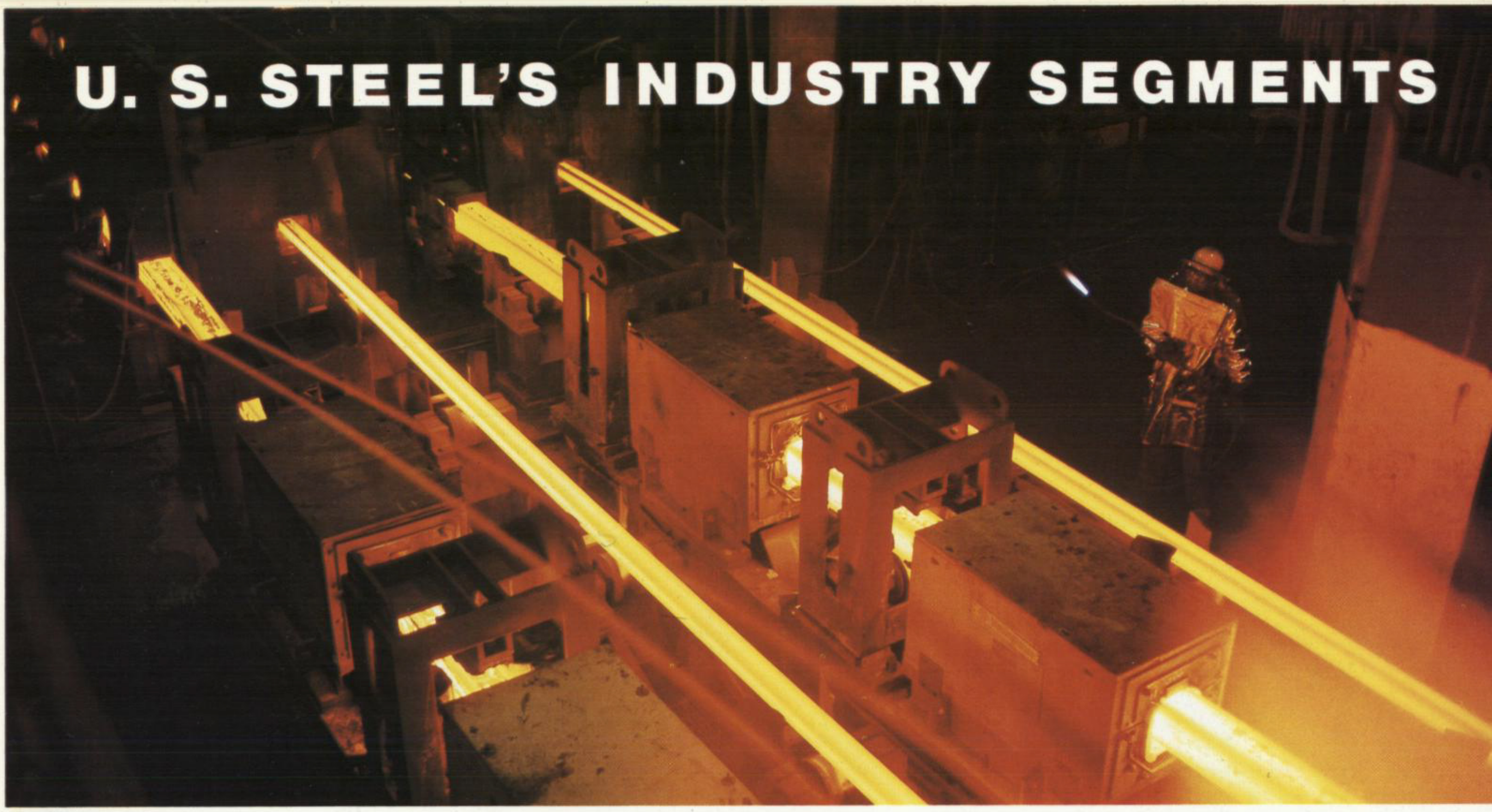
For many years, U. S. Steel's own engineering costs associated with capital projects had been expensed for both book and tax purposes. In 1979, to better reflect its total investment in facilities and to achieve a better matching of expense with revenue, for book purposes the Corporation began capitalizing these engineering costs and depreciating them as part of the assets acquired. This treatment parallels the accounting for outside engineering services for capital projects. The net effect of this change for years prior to 1979 is an addition to income of $64.3 million in 1979.

Certain expenditures for blast furnace relining projects have been charged to expense in the year in which the relining occurred. Beginning in 1979, such expenditures are being capitalized and amortized over the estimated life of the linings. The net effect of this change for prior years was to improve income by $26.1 million in 1979.

U. S. Steel also adopted Financial Accounting Standard No. 34 in 1979 which provides for capitalization of interest on construction projects.

The combined effect of unusual items (exclusive of shutdown costs) and prior years' effect of changes in accounting principles was to increase income before taxes by $18.1 million in 1979.

U. S. STEEL'S INDUSTRY SEGMENTS



Robert W. Smith
Group Vice President—Steel

STEEL MANUFACTURING

	$ Millions	
	1979	1978
Sales	**$9,754**	$8,820
Operating Income (Loss)	**(102)**	26

The increase in sales during 1979 resulted primarily from steel price increases, which only partially covered increased costs. Price increases were voluntarily restricted in compliance with the Federal government's Anti-Inflation Program (see "Wage-Price Guideline Program", page 16).

With strong steel markets in the first half of 1979, operating income trended upward. However, income in the second half was adversely impacted by a decline in demand, continued cost-price pressures, and substantial costs to implement major programs necessary to maintain and improve future operations.

The loss for 1979 came principally from operations at four unprofitable plants. These steel operations have many new facilities which have not yet attained expected performance and productivity levels. Correcting problems at these locations has been costly in terms of increased maintenance and facility outages, disrupted production schedules, and reduced productivity. By year-end, many major maintenance programs were virtually complete. In addition, comprehensive programs utilizing the best available technical expertise are under way to resolve remaining problems.

Many improvements were evident by year-end and more are expected. At Gary Works, the Corporation's largest blast furnace was completely rebuilt and resumed operation in January 1980. Upon completion of start-up, production from this rebuilt furnace is expected to be about 50 percent above its level during 1979. Three smaller furnaces have been shut down. With completion of a blast furnace program in late 1979, South Works has efficient iron production facilities which complement a modern oxygen steelmaking shop and electric furnaces.

At Fairfield Works, efficient, consistent production of quality iron is now being achieved from the new 5,000-ton-per-day blast furnace, which began production in late 1978. It is now exceeding its expected production level. Texas Works began operations in 1970 as a plate mill. It has been expanded and includes modern electric furnaces, continuous casting facilities and a large diameter pipe mill. The new pipe mill is expected to be the leader in the production of pipe products, including the rigid specification, high quality Arctic grades.

The steelmaking facilities and many of the finishing facilities at these four locations are as modern as those anywhere. Some investment will be required, however, to increase production of flat rolled products at Fairfield, to provide new rail production facilities at a location to be determined, and to obtain additional continuous casting and annealing capability. These investments are expected to provide an attractive rate of return.

Strengthening the Organization

Low-cost production on modern, competitive facilities is only one part of the business plan for Steel Manufacturing. The other major part is renewed emphasis on customer service and product quality. To accomplish this, marketing,

This four-strand billet caster at South (Chicago, Ill.) Works is one of U. S. Steel's six modern continuous casting units.

product allocation and production planning functions in steel were centralized. This change will enable more effective coordination of production and sale of the most profitable products by the most efficient plants. The plan does not contemplate production of every possible product.

Also, to insure the greatest return from the investment dollar, all aspects of facility planning, process engineering and construction management were placed under centralized control.

Enhancing Product Quality

In a continuing effort to further improve product quality, all plants are well into the most comprehensive quality improvement program ever undertaken in the Corporation. The program includes an ongoing monitoring system to indicate whether standards are met. It defines responsibilities and establishes authority and accountability for quality control management.

Improving Steelmaking

To benefit from the best steelmaking practices available, U. S. Steel is supplementing its own expertise with the best proven practices available worldwide.

The Corporation has substantial reserves of high-quality coking coal and ore. U. S. Steel intends to use the most efficient manufacturing practices to convert coal and ore economically into iron for steelmaking. The objective is to lower costs, reduce energy requirements, decrease investment in facilities and be virtually self-sufficient in cokemaking capacity. As a corollary, fewer blast furnaces and less coke will be needed to produce the required iron. Already, usage of coke has declined and blast furnace productivity has improved. Further improvements in productivity are expected upon completion of projects under way to produce higher quality coke consistently.

Facilities are under construction at three steel producing locations to accomplish desulphurization of iron, and similar facilities are planned for three additional locations. Benefits will include reduced coke consumption, increased productivity in both ironmaking and steelmaking processes, and production of more prime grade steel.

Improved Profitability: Target for the 1980's

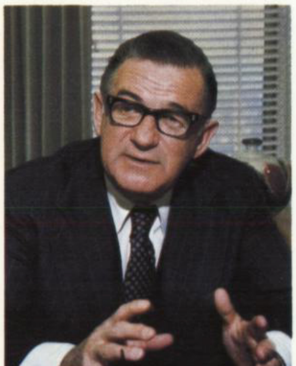
Steel Manufacturing's strategy is to maximize return from investments already in place. Implementation involves identifying and concentrating on product lines with the greatest profit potential; continuing emphasis on product quality; improving customer service; and consolidating production into those facilities where quality, cost effectiveness and improved product mix will provide optimum results. The full favorable effects from these actions will not be realized immediately; but a steady, gradual improvement is expected. With production directed to the most profitable products and the most efficient facilities, U. S. Steel expects to be a leaner, more profitable, market-oriented steel producer in the 1980's.

Steel Manufacturing

	1979	1978	1977	1976	1975
SALES BY PRODUCT GROUPING	Percent of Total Dollars				
Sheet, Strip and Tin Mill	**41%**	41%	42%	44%	33%
Plates, Structural and Piling	**19**	20	18	17	22
Bars and Rods	**12**	13	13	14	12
Pipe and Tubing	**15**	15	14	11	19
Other Steel Products	**7**	7	8	10	9
All Other Products and Services	**6**	4	5	4	5
Total	**100%**	100%	100%	100%	100%
OPERATING STATISTICS	Millions of Net Tons				
Shipments of Steel	**21.0**	20.9	19.6	19.4	17.6
Production:					
Raw Steel	**29.7**	31.3	28.8	28.3	26.4
% Capability Utilization	**83.5%**	82.4%	75.5%	74.6%	74.1%
Iron	**23.4**	24.8	23.1	23.2	21.5
Coal Mined	**16.1**	11.5	14.0	16.0	17.1
Coke	**14.5**	13.6	15.4	15.5	16.0
Iron Ore—Natural and Agglomerated					
Mesabi and Western Ore Operations	**22.8**	20.5	12.2	20.8	22.0
Quebec Cartier Mining Company*	**16.7**	9.0	17.1	16.5	9.1
Total Iron Ore	**39.5**	29.5	29.3	37.3	31.1
% Iron Ore Sold to Others	**38%**	26%	31%	28%	23%

*Resource Development segment

The La Porte, Texas chemical plant of USS Novamont, Inc., U. S. Steel's recently acquired subsidiary, is one of the world's most modern facilities for production of both homopolymer and copolymer polypropylenes.



Duncan J. MacLennan
Group Vice President—Chemicals

Chemicals—Sales by Product Grouping

	Percent of Total Dollars				
	1979	1978	1977	1976	1975
Industrial & Coal Chemicals	**39%**	39%	45%	46%	42%
Plastic Resins	**23**	13	5	9	8
Agriculture	**38**	48	50	45	50
	100%	100%	100%	100%	100%

CHEMICALS

	$ Millions	
	1979	1978
Sales	**$1,256**	$808
Operating Income	**58**	21

With growing markets, with new products available and with higher prices, sales of chemicals in 1979 exceeded the billion dollar level for the first time—a year ahead of earlier projections. Cost increases, primarily raw materials and energy, were substantial—as were preproduction and start-up expenses associated with major construction projects. Operating income increased significantly.

Seven major projects, most of which came on stream late in 1979, are expected to reach full production capability in early 1980. With these projects completed, the year 1980 should be largely free of preproduction and start-up costs. Annual sales potential from these new facilities is nearly $350 million per year at current prices.

Highlights

The new chemical facilities will provide a stronger raw materials base, expand existing product lines, supply new products and provide entry into new markets.

Styrene monomer and olefin cracker units were acquired in January 1979. The styrene monomer facility operated throughout 1979. The olefin cracker unit was placed in operation in the fourth quarter after installation of additional environmental control equipment. Production from both of these units will be used to satisfy a portion of existing raw material requirements of other industrial chemical and plastic resin facilities.

New and expanded facilities for producing nitrogen-based fertilizers began operations in 1979, increasing sales potential for these products by 20 percent. New phenol and unsaturated polyester resins facilities will increase the sales potential of these products, many of which ultimately go into construction and automotive products.

New chemical products were added to the existing line with the start-up of facilities in 1979 to produce bisphenol-A, acrylic sheets, polypropylene, ABS resins and latex materials. These products are used in a wide variety of consumer products. The more diversified product line enables USS Chemicals to enter new markets and to broaden its participation in existing markets.

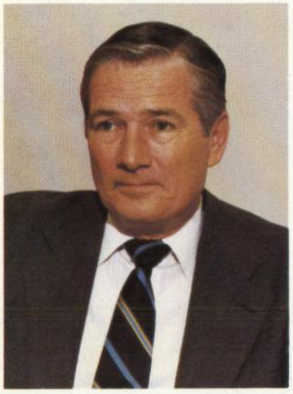
Further Growth: Plan for the 1980's

USS Chemicals and Texaco, Inc., have formed a joint venture to market high-density polyethylene. This product is widely used in containers, housewares and other consumer products; high rates of growth appear likely in the 1980's. Engineering studies are under way for a proposed manufacturing plant for the joint venture that could commence operation in 1983.

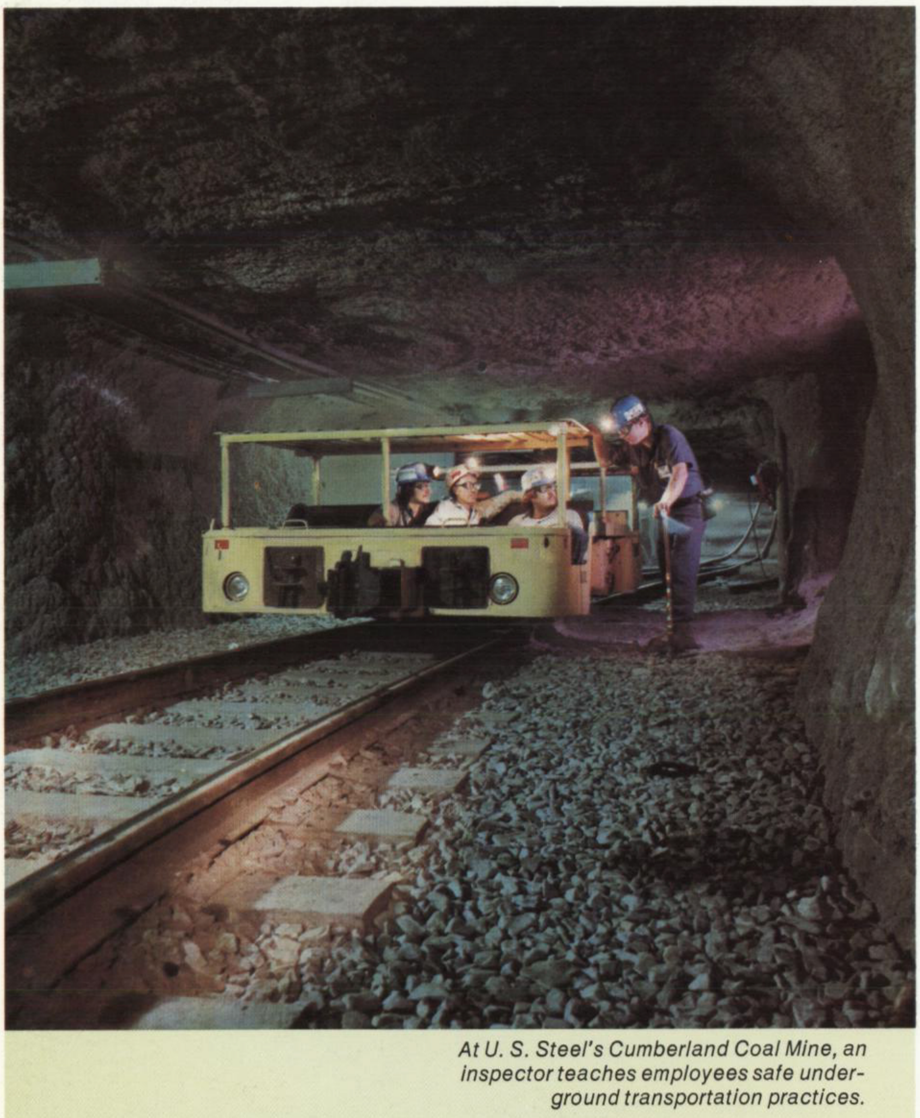
In December 1979, USS Chemicals and Tenneco Chemicals, Inc., signed a letter of intent to form a joint venture to manufacture phthalic anhydride and a plasticizer alcohol. The agreement contemplates construction of new world-scale production facilities in the Houston, Texas area. The units could be in production during 1982. These materials will further strengthen the raw materials base for certain product lines.

During 1979, USS Agri-Chemicals and its partner in a joint venture agreed to expand and extend the life of their existing phosphate rock mine near Ft. Meade, Fla. Phosphate rock is the base material for phosphatic fertilizers. This action will insure Agri-Chemicals' continued self-sufficiency in terms of its phosphate rock requirements through the Eighties.

USS Agri-Chemicals has programs under way to increase sales to consumer markets through additional retail facilities. This approach, coupled with expected strengthening of worldwide phosphatic and nitrogen fertilizer markets, should improve profitability.



James E. Chenault, Jr.
Group Vice President—
Resource Development



At U. S. Steel's Cumberland Coal Mine, an inspector teaches employees safe underground transportation practices.

Resource Development—
Sales by Product Grouping

	Percent of Total Dollars				
	1979	1978	1977	1976	1975
Minerals	**51%**	56%	60%	63%	36%
Transportation Services	**28**	26	21	26	48
Other	**21**	18	19	11	16
	100%	100%	100%	100%	100%

RESOURCE DEVELOPMENT

	$ Millions	
	1979	1978
Sales	**$576**	$396
Operating Income	**55**	25

The improvement in sales and operating income during 1979 primarily reflected higher volume for iron ore, ocean shipping services and energy products, as well as improved earnings from equity investments in overseas mining companies.

Following organization changes made in late 1979, the management of these business activities is now responsible for all the Corporation's mineral resources, including those necessary to support steel operations.

Capital Investments Beginning to Pay Off

Though world iron ore markets continued depressed, Quebec Cartier Mining Company (QCM), a wholly owned Canadian subsidiary, sold 16.3 million net tons in 1979—80 percent of its annual capacity. Higher customer commitments are already in hand at increased prices for 1980.

The international bulk shipping market experienced a dramatic improvement in 1979. Volume for Navios Corporation, U. S. Steel's ocean transportation subsidiary, was 20 million tons in 1979—up 25 percent with public cargoes accounting for most of the gain. Navios initiated a program in 1976 to replace chartered vessels with owned vessels. This program has moved ahead rapidly and successfully. With the acquisition of two additional vessels in 1979, twelve are now under Navios ownership and management. Owned vessels accounted for 32 percent of the total tonnage transported in 1979. Based on business already in place for 1980 and a continued strong international bulk shipping market, further profit improvements are expected.

U. S. Steel's uranium operations in Texas have undergone three expansion programs

As part of a major project at American Bridge Division's Orange (Texas) Plant, an exhaust manifold duct is being welded for the U. S. Air Force Aero Propulsion System Test Facility near Tullahoma, Tenn.

since commencement of operations in 1976. With the latest brought on stream in the third quarter of 1979, production capacity has grown to 1.5 million pounds annually, compared with 275,000 pounds annually in 1976.

In 1979, U. S. Steel continued to participate with other companies in oil and gas exploration and drilling. Half the drillings were successful. Revenues from these ventures will play a significant role in Resource Development's future profitability and cash flow.

Highlights

A major extension of dock loading facilities is currently under way at Port Cartier, a commercial port on the St. Lawrence River owned and operated by QCM. Upon completion in late 1980, the port will have loading capability for over 29 million tons of bulk commodities and will also be able to handle efficiently the growing number of grain carriers, oil tankers and general cargo vessels that use the port on a fee basis.

In November, U. S. Steel's Whitwell, Tennessee coal property was leased to Tennessee Consolidated Coal Company (TCC), a wholly owned subsidiary of St. Joe Minerals Corporation. TCC will extend its adjacent current mining operations to the Whitwell reserve. The lease arrangement will provide income for the Corporation over the next 28 years.

Improved Profitability: Target for the 1980's

Resource Development has continued performing geological surveys, mine planning and other pre-engineering to enable quick reaction to anticipated growing markets for coal and other commercial minerals. Profitability will be further enhanced by securing long-term contracts for most future uranium production, by concentrating oil and gas exploration activities in proven producing areas and by increasing participation in the international bulk shipping market.

FABRICATING & ENGINEERING and OTHER

	$ Millions	
	1979	1978
Sales	**$2,333**	$1,971
Operating Income	**91**	88

Benefits from business planning decisions and capital investments in recent years began to materialize in 1979, as both sales and operating income increased.

As a result of facility expansions over the past four years, as well as the introduction of new products into new market areas, Oilwell Division again achieved record sales and operating income. The order backlog for drilling rig units extends into 1981.

Improved results were also reported by U. S. Steel's real estate operations as its activities continued to grow. A new joint venture shopping center near Pittsburgh, Pa., was opened in 1979. The shopping center includes the largest enclosed mall in Pennsylvania and will be one of the largest shopping complexes in the United States.

Alside, Inc., continued its expansion program during 1979 through the addition of four new retail warehouses. Over the past five years, 26 new retail outlets have been opened for the distribution of siding and related building materials as well as installation service.

At mid-year, U. S. Steel's container manu-

J. Robert Ferguson, Jr.
Senior Vice President and Assistant to President

Earl L. Simanek
Group Vice President—Manufacturing Divisions & Associated Subsidiaries

A view of the recently opened Century III Mall near Pittsburgh, Pa., a joint venture between USS Realty Development and a national real estate developer.

Fabricating & Engineering and Other—
Sales by Product Grouping

	Percent of Total Dollars				
	1979	1978	1977	1976	1975
Manufactured & Fabricated Products	**51%**	51%	52%	50%	57%
Buildings & Bridges	**14**	16	14	20	10
Services & Technical Assistance	**25**	23	24	21	24
Cement & Other	**10**	10	10	9	9
	100%	100%	100%	100%	100%

facturing unit was merged into its steel service center division, United States Steel Supply Division (USD). The merger provides opportunities for improved utilization of the resources of both units. Advantages will occur in product planning, design, development, transportation, customer services and marketing. USD has continued to increase emphasis on the sale of carbon steel sheet products, which represent a significant portion of the domestic steel service center market. USD's carbon sheet shipments in 1979 were over 20 percent higher than in 1978. USD was formerly included in the Steel Manufacturing industry segment.

American Bridge Division (ABD) order bookings, though down from 1978, remained above the depressed levels experienced in 1976 and 1977. Significant projects booked included a series of bridges near Mobile, Ala.; a 4,000-foot bridge across the Mississippi River near St. Louis, Mo.; and two 20-story office buildings for the Renaissance Center in Detroit, Mich. The barge construction business continues strong and ABD's backlog extends through 1980.

In February 1980, U. S. Steel signed a letter of intent to sell its Universal Atlas Cement Division to Heidelberger Zement A.G. of Heidelberg, Germany. The sale price substantially exceeds $100 million. Heidelberger Zement intends to continue to operate the Universal Atlas Cement facilities with substantially the present organization, thereby boding well for the communities in which they are located. No decision has been made by Heidelberger with respect to the facilities whose discontinuance had been previously announced by U. S. Steel.

Improved Profitability: Target for the 1980's

Manufacturing and marketing activities for U. S. Steel's wire rope—a specialty product—have recently been consolidated under a single responsibility. Production capability for larger diameter, high strength special purpose ropes is also being expanded to meet growing demand. Upon completion, U. S. Steel will be the only domestic producer capable of manufacturing large diameter 8-strand wire rope which provides consumers with a more flexible, higher strength product.

During the 1980's, Oilwell Division will continue to expand its domestic manufacturing facilities to meet growing energy-related markets and will actively pursue new international manufacturing ventures. ABD has been reorganized to emphasize fabrication and construction activities as two separate profit responsibilities. This action will enable the division to serve its customers more effectively. USS Engineers and Consultants, Inc., will pursue the worldwide sale of technical assistance, management services and complete industrial plants through increased participation with multinational engineering firms, construction companies, and equipment suppliers. Alside, Inc., whose business is not tied to new housing starts, will continue to penetrate the home improvement market. USS Realty Development will further expand in the domestic real estate market and profitably reemploy other unused Corporate properties. International Manufacturing operations will stress increased growth through self-supporting expansions of existing businesses.

DOMESTIC TRANSPORTATION & UTILITY SUBSIDIARIES

	$ Millions	
	1979	1978
Sales	**$663**	$549
Operating Income	**152**	120

Record sales and operating income were achieved again in 1979, reflecting increased rail and river shipments, authorized tariff rate changes and improved operating efficiency.

Performance of these subsidiaries continues to be outstanding. Since 1975, operating income has increased over 170 percent. During the same period, total sales have risen approximately 75 percent. Sales to non-affiliated customers have also increased, amounting to 34 percent of total sales in 1979.

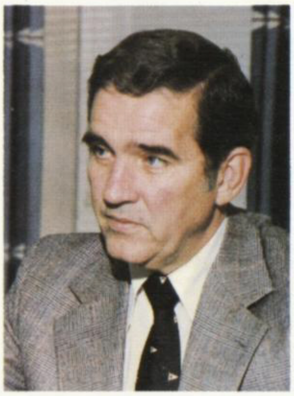
Highlights

New taconite pellet storage and shiploading facilities of the Duluth, Missabe and Iron Range Railway Company at the port of Two Harbors, Minn., were operated throughout 1979. The complex, honored by the National Society of Professional Engineers as one of the Ten Outstanding Engineering Achievements of 1978, is well equipped to handle efficiently the increasing taconite production from U. S. Steel and others in Minnesota.

Expansion of Bessemer and Lake Erie Railroad's coal handling and storage facilities at Conneaut, Ohio, was completed in 1979. With capability increased by 50 percent, the facilities will be able to handle increases expected in Great Lakes coal movements.

Improved Profitability: Target for the 1980's

The companies will continue an aggressive marketing program to obtain maximum utilization of existing facilities and equipment. This, in conjunction with ongoing emphasis on increased productivity, should lead to further improvement in the 1980's.



Thomas Marshall
President—
Barge Line Subsidiaries

M. Spalding Toon
President—
Railroad Subsidiaries

An Ohio Barge Line, Inc. tow of 25 barges heads south on the Mississippi River for New Orleans, La.

Domestic Transportation & Utility Subsidiaries—
Sales by Commodity Handled

	Percent of Total Dollars				
	1979	1978	1977	1976	1975
Iron Ore & Agglomerates	**26%**	26%	23%	25%	28%
Coal	**15**	14	16	14	15
Steel & Other Metals	**8**	10	10	10	11
Switching, Demurrage & All Other	**51**	50	51	51	46
	100%	100%	100%	100%	100%

Corporate Matters

EMPLOYEE RELATIONS

It is regrettable that it was necessary during 1979 to announce the shutdown of a number of operations which, in total, have been unprofitable and offered no realistic hope of future economic survival.

In analyzing these decisions, some real-life economic truths are evident. Labor cost must be competitive. Higher labor rates can be justified only if that labor is more productive and can provide a product or service which is competitive. Hourly employment cost (rate of pay and benefits) must, in the long run, be competitive for those product groups with which it competes; i.e., fabricating labor with fabricating—not steel production workers; cement with cement; container producers with container producers; wire manufacturers with wire manufacturers; and steelworkers with steelworkers worldwide—not auto workers or rubber workers, etc. These are the hard but realistic facts that must be faced. No nation or company can long survive if the price and productivity of its labor is non-competitive.

The union member who organizes to sell his labor without regard to cost competition is the same consumer who demands price competition when he buys back his labor in the marketplace. American industry and American labor must confront some new realities in the Eighties. The marketplace is international. Our standard of living must be produced in the mine, the mill, the laboratory, and on the farm by highly productive people utilizing the best tools and equipment that a favorable economic environment can foster.

Guaranteed annual wage raises, compounded on top of guaranteed cost-of-living wage escalators, on top of guaranteed percent pension formulas, on top of guaranteed health and medical care benefits, can only be acceptable if productivity gains, shared with investors and customers, competitively justify such guarantees. Unfortunately, since the early Seventies, there has been little productivity improvement in steel and a decade-long decline in coal productivity. The result has been closed steel mills, closed coal mines, rising unemployment, rising imports, declining trade balances, and a declining American presence in the world.

Labor Negotiations

The Basic Labor Agreement between U. S. Steel and the United Steelworkers of America expires July 31, 1980. Negotiations are currently under way between the Coordinating Committee Steel Companies and the Union. Under the terms of the Experimental Negotiating Agreement (ENA), if a settlement is not reached by April 15, 1980, the issues will be submitted to an impartial arbitration panel for final and binding decision—thus avoiding the possibility of an industry-wide strike or lockout.

The ENA provides for a three percent increase in each of the next three contract years. For the first time, the parties are free to negotiate the increases in the form of wages or benefits rather than strictly increased wages. The ENA also provides again for a one-time bonus of $150 for each eligible employee and continuation of the existing provision for cost-of-living adjustments.

The compensation and benefit program that currently covers steelworkers is one of the most comprehensive in American industry. In addition to those items provided under the ENA, this program includes benefits covering pensions, unemployment, vacation, hospitalization, major medical, eye and dental care, and life insurance.

Improved Productivity Essential

For the coming decade, it is quite clear that collective bargaining improvements must be earned by improved productivity. It follows also that productivity improvements must be shared with consumers and investors. To survive and thrive, industries and unions must moderate their arrangements to accommodate these objectives.

Safety

During 1979, U. S. Steel continued to stress employee safety. The number of lost workday cases was less than half the average rate of competitor companies in both the domestic steel and underground bituminous coal industries.

RESEARCH AND DEVELOPMENT

U. S. Steel's research efforts in 1979 continued to be directed both toward projects which will in the near term result in improved productivity and improved product quality and toward long-range research activities. Expenditures for research and development totaled $57 million in 1979, compared with $53 million in 1978.

During 1979, technology transferred from the laboratory to practical applications aided in increasing blast furnace efficiency, in improving steelmaking practices and in energy conservation.

Research implemented a computerized raw material and energy balance information system on U. S. Steel's five largest blast furnaces. With this system, the furnace operator can quickly adjust practices to optimize furnace operations. This system will be implemented on

Steel from a bench-scale Q-BOP steelmaking furnace is tapped at U. S. Steel's Monroeville (Pa.) Research Laboratory.

other Corporate blast furnaces in 1980.

Research assisted in developing an improved operating control system for basic oxygen steelmaking which already is resulting in decreased steelmaking time, reduced oxygen usage, improved product yield and increased furnace lining life.

Long-range research activities in both steel and nonsteel are under way in areas such as raw materials processing, production systems control, product improvement, and new product development.

GOVERNMENT ACTIVITY

Communication with various government officials and agencies on matters affecting the Corporation, the domestic steel industry and the nation have long been part of management's responsibility. This activity intensified in 1979, and there are signs government is beginning to recognize some of the problems confronting capital intensive industries like steel.

Numerous meetings were held with Federal, state and local government officials around the country, including key Administration leaders; testimony was given before U. S. Senate and House of Representatives committees and subcommittees; and government officials were invited to visit and gain first hand knowledge of Corporation facilities and problems. U. S. Steel's views on international trade, tax reform, capital formation, wage-price guidelines, energy policy, and environmental control regulations were among some of the subjects stressed.

Representing the American Iron and Steel Institute, David M. Roderick recently participated in a panel discussing Capital Formation before the U. S. Senate Finance Subcommittee on Taxation and Debt Management.

WAGE-PRICE GUIDELINE PROGRAM

During the first Program Year of the Administration's Voluntary Wage-Price Guideline Program, which ended September 30, 1979, steel cost increases were 20 percent higher than allowable price increases, creating a serious cost-price squeeze. Steel profit margins are already too low to withstand any further squeezing.

Steelmaking costs rose almost 12 percent after recognition of long-term productivity gains, primarily reflecting cost-of-living increases and rapidly escalating energy prices. During the year, the Corporation requested permission from the Council on Wage and Price Stability to use the profit margin exception for steel operations. The modified profit margin standard granted by the Council, while an improvement over the price deceleration standard, fell far short of allowing price increases sufficient to cover cost increases.

At this time, there is no solid evidence that inflation in 1980 will be noticeably less than in 1979. Steel profit margins cannot withstand further deterioration, and without relief, could become virtually nonexistent.

U. S. Steel believes that, as a minimum, steel and other low profit industries should be allowed percentage price increases equal to the percentage increase in costs, market conditions permitting.

FOREIGN COMPETITION

Steel imports totaled 17.5 million tons in 1979, accounting for 15.2 percent of apparent domestic supply. Although below the record level of 21.1 million tons in 1978, imports during

USS Chemicals' expanded synthetic phenol unit at Haverhill, Ohio is now in full operation. This expansion, the fourth since the plant started in 1969, boosts phenol production capacity by 195 million pounds per year.

the second half of 1979 increased significantly —amounting to an annualized rate of almost 20 million tons.

U. S. Steel is a strong advocate of free trade, as long as it is also fair trade. Our objection to imported steel is that much of it is "dumped" in U.S. markets—contrary to the clear intent of U. S. trade laws. "Dumping" occurs when foreign producers sell in this country at prices below their home market prices, or below their real costs of production plus the cost of shipping those products into this country.

The Trigger Price Mechanism (TPM) was devised by the Federal government late in 1977 to provide early warning of dumping. As designed, the TPM cannot accomplish its goal because the system is tied to yen-dollar relationships and is based on theoretical Japanese costs. As a result, TPM automatically provides an umbrella for other foreign producers, whose production costs are higher than the Japanese, permitting them to dump in the U. S. market without fear of the government initiating dumping investigations. In addition, the system makes no attempt to check import prices with foreign home market prices—the classic method of identifying dumping.

Clearly, if dumped imports are not more effectively curtailed through the TPM system, then we must pursue other available remedies such as filing anti-dumping suits.

Selected Highlights — Trends

	Dollars in Millions (except as noted)				
SUMMARY OF OPERATIONS	**1979**	1978	1977	1976	1975
Sales	**$12,929.1**	$11,049.5	$9,609.9	$8,607.8	$8,171.3
Operating Costs					
Cost of Sales (Excludes items shown below)	**10,705.3**	9,046.4	7,944.5	6,720.1	6,174.5
Selling, General and Administrative Expenses	**423.5**	372.4	349.5	318.8	320.7
Pensions, Insurance and Other Employee Benefits	**769.4**	693.6	572.1	538.7	494.6
Wear and Exhaustion of Facilities	**531.5**	435.6	372.0	308.6	297.2
State, Local and Miscellaneous Taxes	**237.9**	215.4	196.3	197.1	180.1
Operating Income (Excludes items shown below)	**261.5**	286.1	175.5	524.5	704.2
Interest, Dividends and Other Income	**196.0**	155.3	81.2	108.2	138.6
Interest and Other Financing Costs	**(184.0)**	(191.4)	(154.8)	(114.4)	(82.9)
Gain from Sale of Timberland	**—**	—	—	—	63.7
Income Before Items Shown Below	**273.5**	250.0	101.9	518.3	823.6
Unusual Items	**(949.9)**	—	—	—	—
Provision (Credit) for Taxes on Income	**(293.0)**	8.0	(36.0)	108.0	264.0
Income (Loss) Before Cumulative Effect on Prior Years of Changes in Accounting Principles	**(383.4)**	242.0	137.9	410.3	559.6
Cumulative Effect on Prior Years of Changes in Accounting Principles	**90.4**	—	—	—	—
Income (Loss)	**$ (293.0)**	$ 242.0	$ 137.9	$ 410.3	$ 559.6
Income (Loss) Per Common Share in Dollars—Primary					
—Before Cumulative Effect on Prior Years of Changes in Accounting Principles	**$ (4.46)**	$ 2.85	$ 1.66	$ 5.03	$ 6.89
—Cumulative Effect on Prior Years of Changes in Accounting Principles	**1.05**	—	—	—	—
—Income (Loss)	**$ (3.41)**	$ 2.85	$ 1.66	$ 5.03	$ 6.89
Dividends Per Common Share (in dollars)	**$ 1.60**	$ 1.60	$ 2.20	$ 2.12	$ 1.87
TAXES					
Provision (Credit) for Taxes on Income	**$ (293.0)**	$ 8.0	$ (36.0)	$ 108.0	$ 264.0
Social Security Taxes	**276.6**	234.6	199.6	180.9	161.9
Property Taxes	**114.0**	112.0	113.6	114.7	100.0
Other State, Local and Miscellaneous Taxes	**123.9**	103.4	82.7	82.4	80.1
Total Taxes	**$ 221.5**	$ 458.0	$ 359.9	$ 486.0	$ 606.0
EMPLOYEE MATTERS					
Wages and Salaries	**$ 3,905.5**	$ 3,472.6	$3,072.8	$2,795.7	$2,582.3
Employee Benefits	**$ 1,153.4***	$ 1,012.6	$ 844.7	$ 782.6	$ 708.0
Average Number of Employees for Year	**171,654**	166,848	165,845	166,645	172,796
Index of Total Corporate Man-Hours—1967=100	**88.3**	85.8	83.3	83.3	84.9
Average Hourly Employment Cost (in dollars)	**$ 15.73**	$ 14.36	$ 12.97	$ 11.97	$ 10.70
Number of Pensioners—Year-End	**89,299**	86,725	84,090	81,311	77,707
Savings Fund Plan:					
Participating Salaried Employees	**30,957**	30,993	31,895	32,380	32,254
Amount Saved by Employees	**$ 37.8**	$ 35.9	$ 37.0	$ 34.3	$ 32.1
% U. S. Steel Common Stock Held in Fund—Year-End	**14.8%**	13.1%	12.5%	12.3%	12.8%
CAPITAL SPENDING & AUTHORIZATIONS					
Plant and Equipment**					
Authorizations	**$ 964.0**	$ 712.8	$ 739.7	$ 852.3	$ 562.4
Spent in Year	**979.0**	667.8	864.7	957.3	787.4
Authorized but Unexpended—Year-End	**1,030.0**	1,045.0	1,000.0	1,125.0	1,230.0
OTHER HIGHLIGHTS—YEAR-END					
Working Capital	**$ 1,045.9**	$ 1,363.8	$1,350.0	$1,169.2	$1,224.7
Total Assets	**$11,029.9**	$10,536.3	$9,914.4	$9,167.9	$8,155.0
Long-Term Debt	**$ 2,307.8**	$ 2,194.5	$2,300.2	$1,959.9	$1,542.5
Stockholders' Ownership	**$ 4,894.6**	$ 5,281.0	$5,141.7	$5,129.0	$4,850.2
Number of Stockholders	**255,340**	258,239	248,986	243,017	258,419

* Excludes employee related costs attributable to shutdown of facilities and occupational disease claims (see Notes 19 and 20 to Financial Statements).

** Data for 1979 not directly comparable with prior years' data due to changes in accounting principles adopted in 1979 (see Note 21 to Financial Statements).

Supplementary Information on Changing Prices (Unaudited)

Financial Accounting Standard No. 33 was established in 1979. It requires two supplemental statements and explanations of certain financial data aimed at portraying the effect of general price level changes. Supplementary information of this type should be viewed with caution as it provides only a partial analysis. It does not reflect all of the relevant factors bearing on economic performance. However, for profitable businesses having plant, equipment or inventory acquired in prior years, statements of this type clearly demonstrate that reported profits, and hence reported taxes, are overstated.

INCOME ADJUSTED FOR CHANGES IN THE CONSUMER PRICE INDEX
For the Year Ended December 31, 1979

	(In Millions)	
	As Reported in Financial Statements	**Adjusted for Changes in Consumer Price Index (Average 1979 Dollars)**
Sales	$12,929.1	$12,929.1
Costs		
Cost of sales	10,705.3	10,812.1
Wear & exhaustion	531.5	859.7
All other	2,075.7	2,075.7
(Loss) before cumulative effect on prior years of changes in accounting principles	$ (383.4)	$ (818.4)
Gain from decline in purchasing power of net amounts owed		$ 283.3

Current year statement—The second column shows cost of sales and wear and exhaustion restated to reflect consumption of inventory and amortization of facilities at original cost adjusted for general inflation (based on the Consumer Price Index for All Urban Consumers). The disclosure rules preclude adjustments to the actual provision for taxes on income.

The gain from decline in purchasing power of net amounts owed indicates that the total liabilities requiring future fixed cash settlement could theoretically be repaid with dollars having a lesser value than at the beginning of the year. This represents a hypothetical and unrealized gain.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR CHANGES IN THE CONSUMER PRICE INDEX*

	All Dollars in Millions Except Per Share Amounts				
	1979**	1978	1977	1976	1975
Sales	$12,929.1	$12,293.5	$11,510.7	$10,975.7	$11,020.0
Cash dividends declared per common share	$ 1.58	$ 1.77	$ 2.62	$ 2.69	$ 2.52
Market price per common share at year-end	$ 16½	$ 22¾	$ 36¾	$ 62	$ 56¾
Average Consumer Price Index (1967=100)	217.4	195.4	181.5	170.5	161.2

*The comparison restates financial data to average 1979 dollar values based on the Consumer Price Index for All Urban Consumers.

**Items required to be reported only for 1979 include (a) the loss before cumulative effect on prior years of changes in accounting principles $(818.4), and per common share $(9.51), (b) gain from decline in purchasing power of net amounts owed $283.3, and (c) net assets at year-end $10,033.6. The net assets reflect the net worth after general inflation adjustment to revalue inventory and net property, plant and equipment.

Management's Report— Independent Accountant's Report

Management's Report—

The Corporation believes that the accompanying consolidated financial statements of United States Steel Corporation and Subsidiary Companies have been prepared in conformity with generally accepted accounting principles. They necessarily include some amounts that are based on best judgments and estimates. The financial information displayed in other sections of this Annual Report is consistent with that in the consolidated financial statements.

The Corporation seeks to assure the objectivity and integrity of its financial records by careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communications programs aimed at assuring that its policies and methods are understood throughout the organization.

The Corporation has a comprehensive formalized system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that its financial records are reliable. Appropriate management monitors the system for compliance, and the internal auditors independently measure its effectiveness and recommend possible improvements thereto. In addition, as part of their examination of the consolidated financial statements, the Corporation's independent public accountants, who are elected by the stockholders, review and test the internal accounting controls on a selective basis to establish a basis of reliance thereon in determining the nature, extent and timing of audit tests to be applied.

The Board of Directors pursues its oversight role in the area of financial reporting and internal accounting control through its Audit Committee. This committee, composed solely of non-management directors, regularly meets (jointly and separately) with the independent public accountants, management and internal auditors to monitor the proper discharge by each of its responsibilities relative to internal accounting controls and consolidated financial statements.

B D Smith
Vice President and Comptroller

W B Thomas
*Executive Vice President—
Accounting and Finance*

Price Waterhouse & Co.

600 GRANT STREET
PITTSBURGH, PENNSYLVANIA 15219
412-355-6000

February 12, 1980

To the Stockholders of
United States Steel Corporation:

We have examined the Consolidated Balance Sheet of United States Steel Corporation and Subsidiary Companies as of December 31, 1979 and December 31, 1978 and the related Statements of Income and Income Reinvested in Business and Statement of Changes in Financial Position for the years then ended. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The method of accounting for own engineering costs, blast furnace linings and interest costs was changed in 1979, as described in Note 21 to the financial statements.

In our opinion, the accompanying financial statements present fairly the financial position of United States Steel Corporation and Subsidiary Companies at December 31, 1979 and December 31, 1978 and the results of operations and changes in financial position for the years then ended in conformity with generally accepted accounting principles consistently applied during the period except for the changes, with which we concur, referred to in the preceding paragraph.

Price Waterhouse & Co.

Summary of Principal Accounting Policies

Principles applied in consolidation—Majority owned subsidiaries are consolidated, except for leasing and finance companies.

Investments—Investments in leasing and finance companies are at U. S. Steel's equity in the net assets plus advances to such companies. Investments in other companies, in which U. S. Steel has significant influence in the management and control, are also accounted for by the equity method. Marketable equity securities are at the lower of cost or market and other investments are at cost.

Inventories—Since 1941, the cost of inventories has been determined primarily under the last-in, first-out (LIFO) method which, in the aggregate, is lower than market.

Income recognition—Sales and related cost of sales are included in income when goods are shipped or services are rendered to the customer, except those related to construction projects which are accounted for on the completed contract method.

Property, plant and equipment—Generally, depreciation is computed on the straight-line method, based on estimated lives (usually the mid-point established under Guideline and Asset Depreciation Range systems). For the most part, depreciation expense is related to rates of operation, within a limited range.

Depletion of the cost of mineral properties is computed on the unit of production method based on estimated mineral reserves of the particular property.

For disposition of a plant or a major facility within a plant, the resultant gain or loss is reflected in income. Proceeds from other sales of facilities depreciated on a group basis are credited to the depreciation reserve. When facilities depreciated on an individual basis are sold, the difference between the selling price and the undepreciated cost is included in income.

Expenditures for renewals and betterments are capitalized. Costs of repairs and maintenance are expensed. The amortization of capital leases is included in Wear and exhaustion of facilities.

Mineral exploration and development—General prospecting costs are charged to expense as incurred. Exploration and development costs of domestic projects (except oil and gas) are expensed as incurred, but when projects are determined to be commercially feasible, these exploration costs are capitalized. Domestic oil and gas and foreign exploration and development costs are capitalized as incurred. If such projects are determined commercially unfeasible, these costs are expensed.

Pensions—Non-contributory pension provisions of the U. S. Steel Plan for Employee Pension Benefits cover substantially all employees and, in addition, participating salaried employees are also covered by the contributory pension provisions.

Pension costs under this plan are determined by an independent actuary based upon an acceptable actuarial method and various actuarial factors which, from time to time, are adjusted in light of actual experience. Pension costs reflect current service and a 25-year amortization of the frozen initial unfunded accrued liability. The funding policy provides that payments to the pension trusts shall be equal to the minimum funding requirements of ERISA plus additional amounts which may be approved from time to time.

Insurance—For the most part, U. S. Steel does not insure for property and casualty losses. Certain risks, including those required to be insured by law or contract and catastrophe casualty exposures, are insured. Costs resulting from non-insured losses are charged against income upon occurrence.

Deferred income taxes—These taxes result from recognizing certain items of income and expense in the consolidated financial statements in different years than they are recognized for income tax purposes.

Investment credit—Investment tax credits are recognized under the flow-through method whereby the provision for income taxes is reduced in the year these tax credits become allowable.

Consolidated Statements of Income and Income Reinvested in Business

	(In millions) 1979	1978
SALES	**$12,929.1**	$11,049.5
OPERATING COSTS		
Cost of sales (excludes items shown below)	**10,705.3**	9,046.4
Selling, general and administrative expenses	**423.5**	372.4
Pensions, insurance and other employee benefits	**769.4**	693.6
Wear and exhaustion of facilities	**531.5**	435.6
State, local and miscellaneous taxes	**237.9**	215.4
	12,667.6	10,763.4
OPERATING INCOME *(Excludes items shown below—Note 23)*	**261.5**	286.1
Interest, dividends and other income *(Note 18)*	**196.0**	155.3
Interest and other financing costs *(Note 18)*	**(184.0)**	(191.4)
INCOME BEFORE UNUSUAL ITEMS, TAXES ON INCOME AND CUMULATIVE EFFECT ON PRIOR YEARS OF CHANGES IN ACCOUNTING PRINCIPLES	**273.5**	250.0
UNUSUAL ITEMS		
Estimated provision for costs attributable to shutdown of facilities *(Note 19)*	**(808.6)**	—
Estimated provision for occupational disease claims *(Note 20)*	**(88.1)**	—
Revaluation of other investments *(Note 3)*	**(53.2)**	—
	(949.9)	—
INCOME (LOSS) BEFORE TAXES ON INCOME AND CUMULATIVE EFFECT ON PRIOR YEARS OF CHANGES IN ACCOUNTING PRINCIPLES	**(676.4)**	250.0
Provision (credit) for estimated United States and foreign income taxes *(Note 16)*		
Current	**(6.3)**	6.7
Deferred	**(286.7)**	1.3
	(293.0)	8.0
INCOME (LOSS) BEFORE CUMULATIVE EFFECT ON PRIOR YEARS OF CHANGES IN ACCOUNTING PRINCIPLES	**(383.4)**	242.0
Cumulative effect on prior years of changes in accounting principles *(Note 21)*	**90.4**	—
INCOME (LOSS)	**$ (293.0)**	$ 242.0
INCOME (LOSS) PER COMMON SHARE (in dollars) *(Note 13)*		
Primary:		
Income (loss) before cumulative effect on prior years of changes in accounting principles	**$ (4.46)**	$ 2.85
Cumulative effect on prior years of changes in accounting principles	**$ 1.05**	$ —
Income (loss)	**$ (3.41)**	$ 2.85
Fully diluted:		
Income (loss) before cumulative effect on prior years of changes in accounting principles	**$ (4.46)**	$ 2.78
Cumulative effect on prior years of changes in accounting principles	**$ .98**	$ —
Income (loss)	**$ (3.41)**	$ 2.78
PRO FORMA AMOUNTS ASSUMING ACCOUNTING CHANGES WERE APPLIED RETROACTIVELY		
Income (loss)	**$ (383.4)**	$ 256.5
Income (loss) per common share (in dollars)		
Primary	**$ (4.46)**	$ 3.02
Fully diluted	**$ (4.46)**	$ 2.94

INCOME REINVESTED IN BUSINESS

	1979	1978
Balance at beginning of year	**$ 3,518.8**	$ 3,412.7
Income (loss)	**(293.0)**	242.0
	3,225.8	3,654.7
Less—Dividends on common stock $1.60 and $1.60 per share	**137.5**	135.9
Balance at end of year	**$ 3,088.3**	$ 3,518.8

Consolidated Balance Sheet

	(In millions) December 31 1979	1978
ASSETS		
Current Assets:		
Cash *(Note 1)*	**$ 410.9**	$ 377.6
Marketable securities, at cost (approximates market)	**196.5**	338.4
Receivables, less allowance for doubtful accounts of $13.9 and $15.2	**1,598.8**	1,433.9
Inventories *(Note 2)*	**1,250.5**	1,257.0
Total Current Assets	**3,456.7**	3,406.9
Long-term receivables and other investments, less estimated losses of $6.1 and $32.3 *(Note 3)*	**758.6**	748.1
Property, plant and equipment, less accumulated depreciation of $7,064.9 and $7,208.6 *(Note 4)*	**6,415.9**	5,975.0
Operating parts and supplies	**119.9**	113.8
Costs applicable to future periods	**278.8**	292.5
Total Assets	**$11,029.9**	$10,536.3
LIABILITIES		
Current Liabilities:		
Notes payable *(Note 7)*	**$ 195.2**	$ 163.8
Accounts payable	**971.4**	827.7
Payroll and benefits payable	**673.2**	638.0
Accrued taxes *(Note 6)*	**403.4**	339.1
Long-term debt due within one year *(Note 8)*	**44.5**	74.5
Current portion of estimated provision for costs attributable to shutdown of facilities *(Note 19)*	**123.1**	—
Total Current Liabilities	**2,410.8**	2,043.1
Long-term debt, less unamortized discount *(Note 8)*	**2,307.8**	2,194.5
Deferred income taxes	**162.8**	416.8
Deferred credits and other liabilities *(Note 20)*	**236.6**	100.9
Estimated provision for costs attributable to shutdown of facilities *(Note 19)*	**517.3**	—
Redeemable preferred stock of consolidated subsidiary *(Note 9)*	**500.0**	500.0
Total Liabilities	**6,135.3**	5,255.3
OWNERSHIP EVIDENCED BY		
Common stock (par value $1 per share, authorized 150,000,000 shares) outstanding—86,756,062 shares and 85,567,163 shares, stated at $20 per share *(Note 11)*	**1,735.1**	1,711.3
Capital in excess of stated value *(Note 11)*	**71.2**	70.0
Net unrealized loss on marketable equity securities *(Note 3)*	**—**	(19.1)
Income reinvested in business	**3,088.3**	3,518.8
Total Ownership	**4,894.6**	5,281.0
Total Liabilities and Ownership	**$11,029.9**	$10,536.3

Statement of Changes in Consolidated Financial Position

	(In millions) 1979	1978
ADDITIONS TO WORKING CAPITAL		
Income (loss)	**$ (293.0)**	$ 242.0
Add (deduct)—Wear and exhaustion of facilities	**531.5**	435.6
Deferred taxes on income (includes effect of changes in accounting principles)	**(262.2)**	(27.3)
Unusual items (excludes current portion of $123.1)	**826.8**	—
Cumulative effect on prior years of changes in accounting principles (excludes tax effects)	**(159.4)**	—
Working capital from operations	**643.7**	650.3
Increases in long-term debt due after one year	**239.9**	226.5
Proceeds from sales of common stock	**25.0**	36.8
Proceeds from sales and salvage of plant and equipment	**15.7**	22.6
Issuance of redeemable preferred stock of consolidated subsidiary	**—**	250.0
Decreases in costs applicable to future periods	**13.7**	—
Total additions	**938.0**	1,186.2
DEDUCTIONS FROM WORKING CAPITAL		
Expended for property, plant and equipment	**979.0**	667.8
Dividends paid on common stock	**137.5**	135.9
Decrease in long-term debt due after one year	**126.6**	332.2
Miscellaneous deductions (net)	**12.8**	36.5
Total deductions	**1,255.9**	1,172.4
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (317.9)**	$ 13.8

ANALYSIS OF INCREASE (DECREASE) IN WORKING CAPITAL

	1979	1978
WORKING CAPITAL AT BEGINNING OF YEAR	**$1,363.8**	$1,350.0
Cash and marketable securities	**(108.6)**	17.1
Receivables, less allowance for doubtful accounts	**164.9**	347.3
Inventories	**(6.5)**	2.2
Notes payable	**(31.4)**	4.1
Accounts payable	**(143.7)**	(176.6)
Payroll and benefits payable	**(35.2)**	(79.2)
Accrued taxes	**(64.3)**	(108.7)
Long-term debt due within one year	**30.0**	7.6
Current portion of estimated provision for costs attributable to shutdown of facilities	**(123.1)**	—
INCREASE (DECREASE) IN WORKING CAPITAL	**(317.9)**	13.8
WORKING CAPITAL AT END OF YEAR	**$1,045.9**	$1,363.8

Notes to Financial Statements

1. CASH—Included in cash are interest-bearing, short-term time deposits of $313.9 million and $312.4 million at December 31, 1979 and December 31, 1978, respectively.

2. INVENTORIES—

	(In millions) December 31 1979	1978
Raw materials	**$ 226.5**	$ 169.2
Semi-finished products	**401.8**	511.7
Finished products	**345.8**	337.1
Supplies and sundry items	**244.3**	206.9
Construction contracts in progress	**222.8**	183.5
Less invoices rendered	**(190.7)**	(151.4)
Total	**$1,250.5**	$1,257.0

Under the LIFO method, current acquisition costs are estimated to exceed the inventory value at December 31, 1979 as shown above by approximately $2,100 million.

Included in Cost of sales and Income (Loss) Before Taxes On Income And Cumulative Effect On Prior Years Of Changes In Accounting Principles are estimated credits of $118.7 million in 1979 and $124.5 million in 1978 from LIFO inventory liquidations. Inventory quantity liquidations are a common and frequent occurrence in U. S. Steel and generally result from planned inventory programs to support changes in process technology, customer product specifications and market conditions, and because of the discontinuance of product lines.

The net of construction contracts in progress less invoices rendered includes $40.0 million in 1979 and $43.5 million in 1978 related to contracts for which cumulative costs exceed cumulative invoices rendered and $(7.9) million in 1979 and $(11.4) million in 1978 applicable to contracts for which cumulative invoices rendered exceed cumulative costs.

3. LONG-TERM RECEIVABLES AND OTHER INVESTMENTS—

	(In millions) December 31 1979	1978
Receivables due after one year	**$ 88.9**	$104.2
Trusteed funds for environmental improvements	**308.0**	283.8
Other trusteed funds and statutory deposits	**39.7**	38.9
Investments:		
Wholly owned leasing and finance companies—equity method	**48.3**	42.7
Partnership interests	**26.6**	24.5
Other partially owned companies—		
Equity method	**184.1**	184.0
Cost method	**34.9**	37.4
Other	**28.1**	32.6
Total	**$758.6**	$748.1

Income from investments accounted for by the equity method amounted to $31.7 million in 1979 and $15.6 million in 1978 and dividends received in 1979 and 1978 were $4.4 million and $6.3 million, respectively. Geographic areas and industries in which equity companies operate are shown on page 35.

U. S. Steel's investment in an inactive partially owned company accounted for under the equity method was written down to a nominal value in 1979. This resulted in a $19.4 million charge to pre-tax income.

Investments in partially owned companies (cost method) include marketable equity securities of $2.9 million for 1979 and $7.1 million for 1978. Cost exceeded market value by $33.8 million at December 31, 1979 and $27.4 million at December 31, 1978. In 1979 management concluded that the value of the marketable equity security was permanently impaired and charged pre-tax income with the writedown to market value. In 1978 the decline in market value had been considered temporary and the excess of cost over market value was credited to the investment and an unrealized loss, net of deferred tax, was reflected in stockholders' equity.

Guarantees by U. S. Steel of the liabilities of other companies, most of which are accounted for by the equity method, were $330.3 million at December 31, 1979 and $205.7 million at December 31, 1978.

4. PROPERTY, PLANT AND EQUIPMENT—

	(In millions) December 31 1979	1978
Land	**$ 302.5**	$ 293.1
Buildings	**1,445.4**	1,451.4
Machinery & equipment	**11,616.9**	11,342.5
Capital leases—machinery & equipment	**116.0**	96.6
Total (at cost)	**13,480.8**	13,183.6
Less accumulated depreciation:		
Buildings	**695.0**	703.6
Machinery & equipment	**6,321.0**	6,469.0
Capital leases—machinery & equipment	**48.9**	36.0
Total	**7,064.9**	7,208.6
Net	**$ 6,415.9**	$ 5,975.0

Depreciable lives are at the midpoint under the IRS Asset Depreciation Range System: primary metals—18 years for additions prior to 1979 and 15 years subsequent thereto; chemicals—11 years for additions prior to 1979 and 9.5 years subsequent thereto; mining—10 years; etc. Building lives average 40 years.

5. CAPITAL AUTHORIZATIONS—At December 31, 1979, the estimated amount required to complete authorized projects for property, plant and equipment was $1,030 million. Refer to Note 17 for information regarding contingencies related to environmental and safety laws.

6. ACCRUED TAXES—Details of accrued taxes at December 31, were as follows:

	(In millions)	
	1979	1978
Income taxes—Current	**$287.8**	$243.4
—Deferred	**(42.3)**	(47.5)
Other taxes	**157.9**	143.2
Total	**$403.4**	$339.1

7. NOTES PAYABLE—Notes payable at December 31, 1979 includes $38.8 million payable to an unconsolidated subsidiary at 16.25% interest. All other notes were payable to banks (principally demand basis) and had average interest rates at year-end of 12.2% for 1979 and 10.2% for 1978.

	($ millions)	
	1979	1978
Maximum aggregate amount at any month-end	**$195.2**	$167.4
Weighted daily average:		
Borrowing	**$175.0**	$164.0
Interest rate*	**11.1%**	8.0%

*Computed by relating interest expense to average daily borrowing.

8. LONG-TERM DEBT—A summary of long-term debt, except for leasing and finance companies, outstanding at December 31, is as follows:

	Interest Rates	Years of Maturity	(In millions) 1979	1978
United States Steel Corporation				
Sinking Fund Debentures (callable)	4	1983	**$ 52.2**	$ 54.9
Sinking Fund Debentures (callable)	4½	1986	**59.3**	74.0
Sinking Fund Debentures (callable)	7¾	2001	**124.5**	130.5
Subordinated Debentures (callable) (sinking fund began 1976)	4⅝	1996	**403.4**	437.6
Convertible Subordinated Debentures (callable) (a)	5¾	2001	**360.7**	384.9
Obligations relating to Industrial Development and Environmental Improvement Bonds and Notes	4 1/5-8 1/10	1980-2009	**742.4**	602.3
Notes payable to others (b)	7⅜-9	1980-1995	**256.4**	262.0
Mortgages, purchase money obligations and contracts	3½-10¼	1980-2002	**8.3**	21.7
Capital lease obligations		1980-2007	**42.4**	46.4
Consolidated subsidiaries				
Obligations relating to Industrial Development Bonds	5½-11 1/10	1981-1989	**65.4**	67.4
Railroads First Mortgage Bonds (callable)	2⅞-3	1980-1996	**3.9**	7.2
Notes payable to banks	3-16 3/10	1980-1989	**122.4**	135.2
Notes payable to others	5½-9½	1980-1994	**59.6**	—
Mortgages, purchase money obligations and contracts	5¾-15½	1980-2002	**32.9**	39.7
Capital lease obligations		1980-1989	**30.9**	19.2
Total (c)			**2,364.7**	2,283.0
Less unamortized discount (d)			**12.4**	14.0
			2,352.3	2,269.0
Less amount due within one year			**44.5**	74.5
Long-term debt due after one year			**$2,307.8**	$2,194.5

U. S. Steel has no immediate plans of utilizing $265 million of existing bank lines of credit.

(a) Convertible into common stock at $62.75 per share. Sinking fund begins 1987. The Corporation repurchased $24.2 million in 1979 and $15.1 million in 1978.

(b) Includes $100 million 8¼% note which matures 1986-1995 and a $150 million 7⅜% note which matures 1985-1987, both of which were privately placed in 1977 with financial institutions.

(c) Required payments of long-term debt for the years 1981-1984 are $47.0 million, $63.6 million, $122.8 million, and $73.5 million.

(d) Unamortized discount (principally on 4⅝% Subordinated Debentures) is being amortized over the lives of the related debt.

9. REDEEMABLE PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY—Quebec Cartier Mining Company (QCM) has outstanding, 5,000,000 shares of U. S. $100 par, non-voting, floating rate, cumulative, redeemable preferred stock. Two and one-half million of these shares were issued in 1977 and a like amount in 1978. This financing allowed QCM to replace substantial amounts of its existing long-term debt at a lower carrying cost and also to provide financing for current expenditures.

Shares may be tendered by the holders at specified series installment dates from 1982 through 1985 and are redeemable at any time by QCM. U. S. Steel has agreed that upon the happening of certain stated events, it will, upon tender by any holder, purchase such shares at par plus 200% of accrued and unpaid dividends.

Quarterly dividends, charged to Interest and other financing costs, were paid based on annual floating rates ranging from 5.90% to 7.04% in 1979 and 4.71% to 5.52% in 1978.

10. NON-REDEEMABLE PREFERRED STOCK—U. S. Steel is authorized to issue 20,000,000 shares of non-redeemable preferred stock, without par value. At December 31, 1979, none of this stock had been issued.

11. COMMON STOCK—At December 31, 1979, the status of authorized shares of common stock reserved for specific purposes was as follows:

	Shares Reserved	Shares Issued To Date
Conversion of convertible subordinated debentures	6,374,502	–
Dividend reinvestment plan	6,000,000	3,380,892
Savings fund plan	4,000,000	2,120,977
1976 stock option incentive plan	3,000,000	–
Total	19,374,502	5,501,869

Shares issued at market prices under the Corporation's Dividend Reinvestment Plan were 1,188,899 in 1979 and 851,262 in 1978. In 1978 the Savings Fund Plan purchased 546,502 reserved shares. However, commencing in May 1978, the Savings Fund Plan began purchasing shares on the open market. As a result of the above issuances, capital in excess of stated value increased by $1.2 million in 1979 and $8.9 million in 1978.

12. STOCK OPTION INCENTIVE PLAN—The 1976 Stock Option Incentive Plan was approved by stockholders on May 3, 1976. Under this plan, the Compensation Committee of the Board of Directors may grant to key management employees options to purchase, in the aggregate up to 3,000,000 shares, unissued or reacquired common stock at not less than 100% of market value at date of grant. Options are exercisable after one year, but not to exceed ten years, from date of grant. The Compensation Committee may authorize the surrender of the right to exercise an option or portion thereof in exchange for an amount of stock and/or cash equal to the excess of the fair market value at the time of surrender over the aggregate option price of such shares. Unoptioned shares available at December 31, 1979 were 838,600 and at December 31, 1978 were 1,352,600. No options have been exercised or surrendered through 1979. Transactions during 1979 and 1978 were as follows:

	Number Shares	Option Price Per Share	Value at Date of Grant (In millions)
Shares under option 12/31/77	1,113,000	$38.8125-53.50	$51.3
Granted 5/30/78	543,900	28.875	15.7
Canceled in 1978	(9,500)	28.875-53.50	(.4)
Shares under option 12/31/78	1,647,400	28.875-53.50	66.6
Granted 5/29/79	563,000	22.3125	12.6
Canceled in 1979	(49,000)	22.3125-53.50	(1.8)
Shares under option 12/31/79	2,161,400	22.3125-53.50	$77.4

The market price per share at date options became exercisable was $21⅞ for 539,400 shares exercisable in 1979 and $26⅝ for 559,000 shares exercisable in 1978.

13. INCOME PER COMMON SHARE—Primary income per common share is based on the weighted average number of common shares outstanding which was 86,030,306 in 1979 and 84,961,076 in 1978.

Fully diluted income per share assumes full conversion of the 5¾% convertible subordinated debentures outstanding. In 1979, the conversion of these convertible debentures was excluded from computation of fully diluted income per share because of anti-dilutive effects. In 1978, the income for computation of primary income per share was adjusted by $11.6 million for assumed reduction of interest and other related costs of these debentures. The weighted average number of shares used to compute fully diluted income per share was 91,095,738.

14. PENSION COSTS—The provision for costs of pension plans administered by United States Steel and Carnegie Pension Fund was $353.5 million in 1979 and $331.7 million in 1978. The 1979 cost excludes pension costs attributable to shutdown of facilities. The

increase in costs resulted principally from higher payrolls coupled with an increase in non-contributory pension benefits negotiated in 1977.

In addition, for certain other employees, U. S. Steel made provision of approximately $36 million in 1979 and $32 million in 1978 for multi-employer retirement benefit plans and other pension plans qualified under the laws of the countries involved.

Pension trust assets for the U. S. Steel Plan are valued for actuarial purposes on a 5-year moving average of quarterly market values for quoted securities and at estimated current value for other assets. The actuarially computed value of (a) vested benefits as estimated at December 31, 1979 exceeded the average value of trust assets by approximately $1.0 billion and (b) the unfunded accrued liability was approximately $1.3 billion at December 31, 1979.

15. LEASE COMMITMENTS—At December 31, 1979, U. S. Steel's future total minimum lease payments and the present value of net minimum capital lease payments were:

	(In millions)	
	Capital Leases	Operating Leases
1980	$ 20.3	$ 59.5
1981	16.9	48.0
1982	14.0	38.6
1983	14.1	31.3
1984	12.0	32.3
Later years	58.7	178.2
Sublease rentals (decrease)	—	(3.6)
Total minimum lease payments	136.0	$384.3
Less: Estimated executory costs	26.1	
Net minimum lease payments	109.9	
Less: Imputed interest costs	36.6	
Present value of net minimum lease payments included in long-term debt	$ 73.3	

As to operating leases, approximately 74% of such rentals involve vessel charters, 15% railway equipment leases and the balance covers a variety of facilities and equipment. Most long-term vessel charters and railway equipment leases include purchase options.

Total rental expense for operating leases amounted to $88.4 million in 1979 and $91.0 million in 1978 including reduction of sublease rentals of $1.3 million in 1979 and $1.0 million in 1978. The non-cancelable lease portion amounted to $56.7 million in 1979 and $62.1 million in 1978 of which $52.3 million and $57.8 million, respectively, represented minimum rentals.

16. TAX PROVISION—The provision (credit) for estimated United States and foreign taxes on income was:

	(In millions)	
	1979	1978
Currently payable (refundable):		
U. S. Federal		
Current year	**$ .2**	$ 20.8
Operating loss carryback effects	**(26.7)**	(34.9)
Adjustment of prior years	**(4.1)**	(1.9)
	(30.6)	(16.0)
U. S. State and Local	**9.9**	8.0
Foreign	**14.4**	14.7
Total	**(6.3)**	6.7
Deferred:		
U. S. Federal	**(294.5)**	(1.3)
U. S. State and Local	**1.2**	2.0
Foreign	**6.6**	.6
Total	**(286.7)**	1.3
Total provision (credit)	**$(293.0)**	$ 8.0

The components of the deferred tax provision (credit) resulting from timing differences were:

	(In millions)	
	1979	1978
Depreciation	**$ 130.5**	$ 107.3
Investment credit	**(10.6)**	(119.9)
Interest costs	**.2**	24.7
Unremitted earnings of foreign consolidated subsidiaries	**15.7**	2.3
Intercompany profit in inventory	**2.1**	3.9
Estimated provision for shutdown of facilities	**(354.1)**	—
Estimated provision for occupational disease claims	**(49.3)**	—
Revaluation of other investments	**(14.2)**	—
Reduction of deferred taxes resulting from operating loss	**(20.0)**	—
Adjustment of prior years	**2.4**	(24.5)
Other	**10.6**	7.5
Total deferred tax provision (credit)	**$(286.7)**	$ 1.3

The primary reasons that the provision (credit) for income taxes differs from the amount computed by applying the basic Federal income tax (FIT) rates to Income (Loss) Before Taxes On Income And Cumulative Effect On Prior Years Of Changes In Accounting Principles are as follows:

	(In millions)	
	1979	1978
U. S. statutory rate (1979—46%; 1978—48%) applied to income (loss) before tax	**$(311.1)**	$120.0
Investment credit	**—**	(81.2)
Excess wear and exhaustion	**(44.3)**	(26.3)
Unremitted earnings of certain foreign subsidiaries	**4.3**	9.8
Minimum income tax	**1.0**	12.1
Foreign income taxes	**5.8**	5.6
State and local income taxes after FIT benefit	**6.0**	5.6
Adjustment of prior years	**(1.7)**	(26.4)
Operating loss limitation	**45.6**	—
Other	**1.4**	(11.2)
Total provision (credit)	**$(293.0)**	$ 8.0

As a result of an operating loss, $3.0 million of investment credit recognized in previous years was reversed in 1979 and in addition, $66.4 million of current year investment credit was unused in determining the tax provision for 1979. The unused investment credits expire in 1985 and 1986, respectively.

The 1979 tax provision includes a $46.8 million deferred tax credit offset to the tax effect on prior years changes in accounting principles as a result of the 1979 loss carryback.

At December 31, 1979, for financial reporting purposes, U. S. Steel had an unused operating loss carryforward of $113 million and for tax reporting purposes, there was an unused 1979 net operating loss carryforward of $142 million which expires in 1986.

The U. S. income tax liabilities for all tax years prior to 1964 have been paid except for an additional $15.6 million assessment applicable to 1957-1960 involving an issue which has been appealed to the U. S. Court of Appeals for the Second Circuit. The government has also filed an appeal for those years, which would increase the assessment to $18.5 million. A suit for refund of $20.0 million in taxes and interest has been filed with the U. S. Court of Claims for the years 1962-1963 on an issue on which the Corporation expects a favorable decision. The tax years 1964-1975 are in various stages of audit or administrative review. The Corporation believes it has made adequate provision for income taxes and any interest which may become payable on account of those years not yet settled.

U. S. income taxes have not been provided on unremitted earnings of a foreign subsidiary, as these earnings are considered to be permanently invested by the subsidiary. On a consolidated basis, the earnings totaled $93.4 million through 1979.

17. CONTINGENCIES—Many uncertainties exist concerning the capital requirements of and operating costs associated with the implementation of environmental and safety laws. These government-imposed requirements stem from various legislative enactments including the Federal Water Pollution Control Act, the Federal Clean Air Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Occupational Safety and Health Act, the Coal Mine Health & Safety Act, and the Surface Mining Control and Reclamation Act. In some instances, regulations have not been issued, performance standards have not been established, and equipment requirements have not been defined. In other areas, administrative or judicial proceedings are pending to clarify or establish the extent and type of facilities or facility modifications required for compliance.

Predictions beyond 1980 can only be broad-based estimates by the Corporation, in many cases without any detailed engineering or other documentary support. Such estimates indicate requirement for expenditures for bringing into compliance with the above mentioned legislative requirements those existing facilities which are currently expected to be economically operational ranging from $1,370 million to $1,920 million through 1984 (in 1979 dollars, and includes capitalization of own engineering and interest costs). These estimates assume (a) only minor changes in operating procedures, (b) no process changes and (c) compliance by all Corporation facilities with such environmental and safety laws and regulations, as presently enforced. The economics of the required investment may dictate that certain facilities be abandoned instead of modified to comply with the requirements. The substantial sums required for these non-income generating expenditures will restrict the ability of the Corporation to continue to modernize and expand its facilities. To preclude a negative impact upon the Corporation's earnings in future years, unless there is a substantial increase in productivity, the costs associated with compliance with all these regulations will have to be recovered through cost-covering price increases, market conditions permitting.

The outcome of pending and potential administrative and judicial proceedings, as well as future legislative and regulatory changes, will be significant factors in determining the specific amount of expenditures required for this purpose and the periods of time for achieving legislatively established goals. Federal laws and regulations provide for the assessment of substantial civil penalties for noncompliance with environmental requirements under specified circumstances. It is not possible at this time to estimate the specific amount of such penalties that might be assessed against U. S. Steel or the outcome of any pending or future proceeding in which penalties are sought. However, it is not anticipated that the outcome of such proceedings should result in a material adverse effect upon the consolidated net worth of U. S. Steel.

18. OTHER ITEMS—*Operating costs:* Maintenance and repairs of plant and equipment totaled $1,672.8 million in 1979 and $1,417.8 million in 1978.

Research and development costs totaled $56.6 million in 1979 and $52.5 million in 1978.

Interest, dividends and other income: Gains resulting from the repurchase of debt securities, primarily to satisfy sinking fund requirements, amounted to $23.2

million in 1979 and $35.6 million in 1978. In 1978, a profit of $11.7 million was realized from the sale of U. S. Steel's investment in FLO-CON Systems.

Interest and other financing costs: Expenses included in this account were as follows:

	(In millions)	
	1979	1978
Interest on debt—incurred	**$173.3**	$157.5
Less interest capitalized (Note 21)	**21.7**	—
Net interest expense	**151.6**	157.5
Redeemable preferred stock dividend of QCM (Note 9)	**32.8**	22.1
Foreign exchange losses (gains) related to debt	**(1.3)**	9.1
Other	**.9**	2.7
Total	**$184.0**	$191.4

Other: The aggregate foreign exchange loss (gain) included in income was $(5.5) million in 1979 and $16.1 million in 1978.

In June 1979, U. S. Steel purchased all the common stock of Novamont Corporation, a member of the Montedison Group, for $72.8 million. The newly acquired subsidiary is included in the Chemicals segment as USS Novamont, Inc.

19. ESTIMATED PROVISION FOR COSTS ATTRIBUTABLE TO SHUTDOWN OF FACILITIES—During the fourth quarter 1979, U. S. Steel announced the permanent shutdown of several steel and nonsteel plants and manufacturing facilities which will be disposed of in accordance with a formal approved plan. These shutdowns resulted in a charge against pre-tax income in 1979 of $808.6 million, a minor portion of which was paid out in 1979. A significant portion represents long-term liabilities for employee related costs to be paid out in later years. Most of the related tax benefits should be realized in the future.

These shutdown costs were estimated as follows:

	(In millions)
Employee related costs (includes pensions, insurance, severance, unemployment benefits, etc.)	$413.3
Writedown of facilities to estimated recoverable value	218.7
Estimated operating results during shutdown period	176.6
Total	$808.6

20. ESTIMATED PROVISION FOR OCCUPATIONAL DISEASE CLAIMS—Amendments, effective in 1978, to the Federal Coal Mine Health and Safety Act of 1969, together with administrative actions, have resulted in a dramatic increase during 1979 in claims for alleged pneumoconiosis (Black Lung) from former employees. An estimated accrual of $88.1 million was provided in 1979 for potential awards. Commencing in 1979, a provision for future claims is being accrued over the remaining service life of present employees and is reflected in Pensions, insurance and other employee benefits.

21. CHANGES IN ACCOUNTING PRINCIPLES—Prior to 1979, U. S. Steel's own engineering costs associated with capital projects were charged to cost in the year incurred. In 1979, to better reflect its total investment in facilities and to achieve a better matching of expense with revenue, the Corporation began capitalizing these engineering costs and depreciating them as part of the asset acquired. This treatment parallels the accounting for outside engineering services for capital projects.

Blast furnace linings, which are normally replaced on a six-year cycle, had been charged to operations at the time of relining. Furthermore, advancing technology and increases in size of furnaces could result in longer lining lives and greater reline costs. Therefore, to better reflect its investment in facilities and to achieve a better matching of expense with revenue, in 1979 the Corporation capitalized these reline costs and is amortizing them over the estimated life of the linings.

These changes are considered by management and concurred in by its independent accountants to be preferred accounting practices. The prior years' cumulative effect increased income by $90.4 million net of $69.0 million related income taxes. Approximately 71% of this effect resulted from capitalization of own engineering costs and 29% from capitalization of blast furnace lining costs. The current year effect of these two changes was to increase 1979 pre-tax income by $21.0 million.

U. S. Steel adopted in 1979 Financial Accounting Standard No. 34, Capitalization of Interest Cost. This standard requires capitalization of an interest cost as part of the historical cost of qualifying assets that require a period of time to get them ready for their intended use. The standard specifies prospective application and therefore there is no cumulative effect on prior years. See Note 18 for current year effect.

22. QUARTERLY FINANCIAL DATA (Unaudited)—

(In millions except per share data)

	1979				1978			
	4th Qtr.(a)	3rd Qtr.(a)	2nd Qtr.(a)	1st Qtr.(a)	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Sales	$3,031.9	$3,225.0	$3,606.5	$3,065.7	$2,955.4	$2,788.0	$2,878.2	$2,427.9
Cost of sales	2,642.9	2,652.1	2,881.3	2,529.0	2,379.7	2,265.9	2,284.0	2,116.8
Provision (credit) for income taxes	(369.0)	—	57.0	19.0	29.0	(9.0)	21.0	(33.0)
Income (loss)(e)	(668.9)(b)	88.2	150.4	137.3(d)	94.6	88.8	117.3	(58.7)
Per share data:								
Primary income(e)	$ (7.74)	$ 1.02	$ 1.75	$ 1.60(d)	$ 1.11	$ 1.04	$ 1.38	$ (.70)
Fully diluted income(e)	(7.74)(f)	.99	1.67	1.53(d)	1.07	1.00	1.32	(.70)(f)
Dividends paid	.40	.40	.40	.40	.40	.40	.40	.40
Price range of common stock(c)								
—Low	16¾	21¼	21⅜	21½	21⅛	25	24⅞	25
—High	24½	24⅜	24¾	26⅛	28⅜	30¼	30⅝	32⅞

(a) Restated for changes in accounting principles (Note 21). Prior years effect of $90.4 million is included in 1st quarter 1979.

(b) Includes $(949.9) million for unusual items (Notes 3, 19 and 20).

(c) Composite tape.

(d) Data on changes in accounting principles—first quarter 1979:

		Income Per Share	
	Amount	Primary	Fully Diluted
Income before cumulative effect on prior years of changes in accounting principles	$ 46.9	$ .55	$ .54
Cumulative effect on prior years of changes in accounting principles	90.4	$1.05	$ .99
Income	$137.3	$1.60	$1.53

(e) Comparative data on changes in accounting principles:

	1979				1978			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Data as previously reported:								
Income (loss)	$(561.7)	$81.3	$145.4	$42.0	$94.6	$88.8	$117.3	$(58.7)
Income (loss) per common share—								
primary	(6.50)	.94	1.69	.49	1.11	1.04	1.38	(.70)
fully diluted	(6.50)(f)	.91	1.61	.49(f)	1.07	1.00	1.32	(.70)(f)
Pro forma amounts assuming accounting changes were applied retroactively:								
Income (loss)	$(668.9)	$88.2	$150.4	$46.9	$98.6	$91.8	$121.1	$(55.0)
Income (loss) per common share—								
primary	(7.74)	1.02	1.75	.55	1.15	1.08	1.43	(.65)
fully diluted	(7.74)(f)	.99	1.67	.54	1.11	1.04	1.36	(.65)(f)

(f) Conversion of convertible debentures excluded from fully diluted computation because of anti-dilutive effects.

23. INDUSTRY SEGMENT & GEOGRAPHIC AREA INFORMATION (In millions)

By Industry Segment: (1976 and 1975 Unaudited)

	Sales			Operating Income (Loss)(2)	Identifiable Assets	Wear and Exhaustion	Capital Expenditures
	Unaffiliated Customers	Between Segments	Total				
Steel Manufacturing:(1)							
1979	**$ 9,022.5**	**$ 731.1**	**$ 9,753.6**	**$(102.5)(3)**	**$ 5,890.2**	**$375.2**	**$524.3**
1978	8,135.6	684.5	8,820.1	25.5	5,736.7	316.7	395.2
1977	7,021.7	553.8	7,575.5	(59.9)	5,514.8	265.7	599.0
1976	6,313.4	522.1	6,835.5	145.0	5,121.0	228.2	659.0
1975	5,815.6	607.2	6,422.8	272.5	—	—	—
Chemicals:							
1979	**$ 1,207.1**	**$ 48.5**	**$ 1,255.6**	**$ 57.9**	**$ 794.3**	**$ 44.2**	**$280.5**
1978	763.1	44.7	807.8	21.0	457.3	23.6	100.0
1977	664.5	35.4	699.9	32.7	353.6	17.5	67.5
1976	609.3	38.8	648.1	62.4	270.8	16.1	49.9
1975	621.6	34.1	655.7	124.8	—	—	—
Resource Development:							
1979	**$ 433.3**	**$ 143.0**	**$ 576.3**	**$ 55.4**	**$ 1,066.9**	**$ 48.8**	**$ 78.7**
1978	271.1	124.9	396.0	25.1	1,085.7	41.3	54.1
1977	242.1	143.4	385.5	26.3	1,057.8	38.0	65.0
1976	198.9	160.2	359.1	68.5	1,063.6	23.8	143.7
1975	247.1	106.2	353.3	69.3	—	—	—
Fabricating & Engineering and Other:(1)							
1979	**$ 2,040.7**	**$ 292.1**	**$ 2,332.8**	**$ 90.7**	**$ 1,105.9**	**$ 38.3**	**$ 53.5**
1978	1,705.9	264.6	1,970.5	88.1	1,029.2	35.2	33.8
1977	1,545.7	272.3	1,818.0	95.4	870.8	34.8	39.3
1976	1,357.7	307.6	1,665.3	163.9	845.5	24.2	48.6
1975	1,367.1	222.1	1,589.2	192.9	—	—	—
Domestic Transportation & Utility Subsidiaries:							
1979	**$ 225.5**	**$ 437.6**	**$ 663.1**	**$ 152.2**	**$ 743.6**	**$ 25.8**	**$ 42.0**
1978	173.8	374.7	548.5	119.9	713.1	19.5	84.7
1977	135.9	310.4	446.3	71.3	630.2	16.4	93.9
1976	128.5	317.6	446.1	81.3	562.8	15.0	56.1
1975	119.9	259.5	379.4	55.7	—	—	—
Corporate Assets, Adjustments & Eliminations:(1)							
1979	**$ —**	**$(1,652.3)**	**$(1,652.3)**	**$ 7.8**	**$ 1,429.0**	**$ (.8)**	**$ —**
1978	—	(1,493.4)	(1,493.4)	6.5	1,514.3	(.7)	—
1977	—	(1,315.3)	(1,315.3)	9.7	1,487.2	(.4)	—
1976	—	(1,346.3)	(1,346.3)	3.4	1,304.2	1.3	—
1975	—	(1,229.1)	(1,229.1)	(11.0)	—	—	—
Total Consolidated:							
1979	**$12,929.1**	**$ —**	**$12,929.1**	**$ 261.5(3)**	**$11,029.9**	**$531.5**	**$979.0**
1978	11,049.5	—	11,049.5	286.1	10,536.3	435.6	667.8
1977	9,609.9	—	9,609.9	175.5	9,914.4	372.0	864.7
1976	8,607.8	—	8,607.8	524.5	9,167.9	308.6	957.3
1975	8,171.3	—	8,171.3	704.2	8,155.0	297.2	787.4

(1) Years 1978-1975 restated to reflect transfer of steel service center operations from Steel Manufacturing segment to Fabricating & Engineering and Other.

(2) For exclusions see "General."

(3) The current year effects of accounting changes (Note 21) included in Steel Manufacturing Operating Income (Loss) was $20.4 million. The effects on other segments were immaterial.

23. INDUSTRY SEGMENT & GEOGRAPHIC AREA INFORMATION (In millions) (continued)

By Geographic Areas: (1976 Unaudited)

	Sales			Operating Income (Loss)	Identifiable Assets
	To Unaffiliated Customers	Transfers Between Geographic Areas	Total		
United States (Domestic):					
1979	**$12,335.6**	**$ 20.3**	**$12,355.9**	**$169.2**	**$ 8,433.7**
1978	10,642.6	15.6	10,658.2	239.0	7,943.9
1977	9,205.5	13.1	9,218.6	105.7	7,404.1
1976	8,369.0	7.7	8,376.7	428.8	6,835.9
North America (Excl. U.S.):					
1979	**$ 417.6**	**$ 135.9**	**$ 553.5**	**$ 82.7**	**$ 984.2**
1978	259.5	122.6	382.1	40.8	947.5
1977	254.2	145.0	399.2	56.6	909.8
1976	225.8	176.2	402.0	88.9	1,009.7
Other Foreign:					
1979	**$ 175.9**	**$ 6.6**	**$ 182.5**	**$ 1.8**	**$ 138.3**
1978	147.4	5.5	152.9	(.2)	130.6
1977	150.2	3.6	153.8	3.5	113.3
1976	13.0	—	13.0	3.4	18.1
Corporate Assets, Adjustments & Eliminations:					
1979	**$ —**	**$(162.8)**	**$ (162.8)**	**$ 7.8**	**$ 1,473.7**
1978	—	(143.7)	(143.7)	6.5	1,514.3
1977	—	(161.7)	(161.7)	9.7	1,487.2
1976	—	(183.9)	(183.9)	3.4	1,304.2
Total Consolidated:					
1979	**$12,929.1**	**$ —**	**$12,929.1**	**$261.5**	**$11,029.9**
1978	11,049.5	—	11,049.5	286.1	10,536.3
1977	9,609.9	—	9,609.9	175.5	9,914.4
1976	8,607.8	—	8,607.8	524.5	9,167.9

GENERAL—Intersegment sales and transfers, for the most part, are accounted for at commercial prices. Steel Manufacturing transfers of coal chemical by-products to the Chemicals segment reflect the current value of the raw by-product material as a replacement for purchased fuels plus the costs incurred to convert the raw material to the transferred product.

Operating income for 1979 does not include those costs included in Unusual Items, which by nature are ordinarily considered operating expenses. These costs are:

	(In millions)
Employee related costs included in provision for shutdown of facilities (Steel Mfg. $339.4, Other $73.9)	$413.3
Other costs included in provision for shutdown of facilities (Steel Mfg. $352.5, Other $63.9)	416.4
Estimated provision for occupational disease claims (Steel Mfg.)	88.1
Total	$917.8

In addition, operating income does not include revaluation of investments; profit or loss from the sale of investments and property, plant and equipment; equity

23. INDUSTRY SEGMENT & GEOGRAPHIC AREA INFORMATION (continued)

in the income of unconsolidated investees; dividend and interest income on marketable securities and other outside investments; interest and other financing costs; and income taxes and other items considered to be general corporate income or expense. Selling, general and administrative expenses have been allocated to segments.

Corporate Assets consist largely of cash, notes receivable, marketable securities and other investments.

Export sales from domestic operations were not material. U. S. Steel has no single customer from which it derives 10 percent or more of its revenue.

STEEL MANUFACTURING—Includes domestic iron ore, coal and limestone operations integrated with steel plants which produce and sell a wide range of steel mill products. Also included are the Great Lakes transportation operations, principally involving the movement of ore and limestone to steel plants, and sales of steel mill products by export distributors. Some of the steel mill products are sold to other industry segments of U. S. Steel for further processing and fabrication.

CHEMICALS—Includes the production and marketing of various industrial and coal chemicals, petrochemicals, polyolefin & styrenic plastics and agricultural chemicals.

RESOURCE DEVELOPMENT—Includes the operation of both domestic and foreign businesses, either wholly or majority owned. These involve certain iron ore, coal, uranium and other mineral properties; the development of commercial outlets for currently owned mineral resources considered as excess to U. S. Steel's requirements, either by outright sale or development; the activities of the ocean transportation companies; and the search for and development of new mineral and energy reserves.

FABRICATING & ENGINEERING AND OTHER—Includes the fabrication and erection of structural steel for buildings, bridges, storage tanks and other structures; the fabrication of barges, ship sections, transmission towers, large diameter pipe and a variety of standard fabricated steel products; sales of steel mill products by a network of domestic steel service centers; the manufacture and marketing of gas and oil field drilling and pumping equipment, electrical cable and products for residential housing; the production of cement; and technology licensing, engineering and consulting services. Also includes real estate and miscellaneous operations.

DOMESTIC TRANSPORTATION & UTILITY SUBSIDIARIES—Includes common carrier railroads, domestic barge lines, gas utility companies and a dock company. These subsidiaries, operating autonomously, serve the general public including U. S. Steel and charge for their services on the basis of rates filed with and approved by regulatory agencies as applicable or by contract rates.

24. SEC REPLACEMENT COST REQUIREMENTS (Unaudited)—Inflation continues to increase both production costs and capital spending requirements. Depreciation allowances based on the historical costs of existing facilities are inadequate to support the increasing capital requirements for replacements, modernization, and environmental control facilities at the higher current costs of the new facilities. These added costs which at present can only be recovered through depreciation over many future years, are in effect currently taxed as if they were profits. The result is the taxing away of much of the capital needed to meet the steadily rising costs of inflation. U. S. Steel's annual report on Form 10-K filed with the Securities and Exchange Commission contains quantitative replacement cost information in accordance with SEC Accounting Series Release 190. After three years of disclosure, the conceptual shortcomings of this approach have been acknowledged by the SEC. Accordingly, this requirement is terminated commencing with 1980 reporting when the Supplementary Information on Changing Prices must include the required data on a current cost basis as well as the constant dollar basis required (reported on page 19) for 1979.

Facility Projects

Major Projects Initially Operated in 1979

STEEL MANUFACTURING
- Rehabilitation of Two Coke Batteries—Clairton, Pa.
- Rehabilitation of Three Coke Batteries—Provo, Utah (Geneva Works)
- Rehabilitation of Coke Battery—Fairfield, Ala.
- Water Quality Control Facilities—Gary, Ind.; Rankin, Pa.; and Lorain, Ohio
- Rehabilitation of Coke Battery—Lorain, Ohio
- Coal Mine—0.5 Million Net Tons Per Year—Wyoming County, W. Va.
- One 1,000-Foot Vessel (EDWIN H. GOTT)—Great Lakes Fleet

CHEMICALS
- Phenol Expansion—Haverhill, Ohio
- Unsaturated Polyester Resin Facilities—Neville Island, Pa.
- Nitrogen Derivative Facilities—Crystal City, Mo. and Cherokee, Ala.
- ABS Resin and Latex Products Facilities (Acquisition)—Baton Rouge, La. and Dalton, Ga.
- Olefin Cracker and Styrene Monomer Facilities (Acquisition)—Houston, Texas
- Polypropylene Resin and Acrylic Sheet Facilities (Acquisition)—La Porte, Texas; Neal, W. Va.; and Florence, Ky.

RESOURCE DEVELOPMENT
- Uranium Production Facilities Expansion—Live Oak County, Texas
- Two Ocean Vessels—Navios Corporation

FABRICATING & ENGINEERING AND OTHER
- Vinyl Siding Manufacturing Facilities—Akron, Ohio

Major Projects Expected to be Initially Operated in 1980

STEEL MANUFACTURING
- High Strength Steel Quench and Temper Line—McKeesport, Pa. (National Works)
- Cold Rolled Sheet Facility Improvements—Gary, Ind.
- Bloom Conditioning Facilities—Gary, Ind.
- Seamless Mill Rotary Hearth Furnace—Gary, Ind.
- Rehabilitation of Two Coke Batteries—Gary, Ind.
- Air Quality Control Facilities for Sinter Plant—Gary, Ind.
- 138 K.V. Electrical Power System—Clairton, Pa.
- Coal Preparation and Handling Facilities—Clairton, Pa.
- Replace Two Coke Batteries—Clairton, Pa.
- Water Quality Control Facilities—Dravosburg, Pa.; Duquesne, Pa.; Homestead, Pa.; and Fairless Hills, Pa.
- One 1,000-Foot Vessel—Great Lakes Fleet

RESOURCE DEVELOPMENT
- Iron Ore Loading Wharf Extension—Quebec Cartier Mining Company—Canada

FABRICATING & ENGINEERING AND OTHER
- Sucker Rod Production Facilities Expansion—Oil City, Pa.

ALL PROJECTS INCORPORATE MODERN ENVIRONMENTAL CONTROL EQUIPMENT IN ADDITION TO THOSE SPECIFICALLY IDENTIFIED AS ENVIRONMENTAL CONTROL PROJECTS

U.S. Steel's Principal Direct and Indirect Ownership Interests—Unconsolidated Companies December 31, 1979

Company	Country	% Ownership	Activity
Percy Wilson Mortgage and Finance Corp.	United States	100%	Mortgage Banking
U. S. Steel Credit Corporation	United States	100%	Leasing & Finance
Terninoss Acciai Inossidabili, S.p.A.	Italy	50%	Stainless Steel Products
Minerales Ordaz, C.A.	Venezuela	49%	Partially Reduced Iron Ore Briquettes
Oresteel Investments (Pty.) Ltd.	South Africa	49%	Holding Company—Mining
P.T. Pacific Nikkel Indonesia	Indonesia	49%	Nickel & Cobalt Exploration & Development
Prieska Copper Mines (Pty.) Ltd.	South Africa	46%	Copper & Zinc Concentrates
Feralloys Ltd.	South Africa	45%	Ferromanganese & Ferrochrome
Compagnie Miniere de l'Ogooue	Gabon	44%	Manganese Ore
Zuari Agro Chemicals, Ltd.	India	36%	Fertilizer
Altos Hornos de Vizcaya, S.A.	Spain	25%	Steel Products
Northern Tier Pipeline Co.	United States	25%	Crude Oil Pipeline
Associated Manganese Mines of South Africa, Ltd.	South Africa	20%	Manganese & Iron Ores
Sidbec-Normines, Inc.	Canada	8%	Iron Ore Mining & Concentrating

Organization

Officer-Directors

DAVID M. RODERICK
Chairman of the Board
United States Steel Corporation

WILLIAM R. ROESCH
President
United States Steel Corporation

W. BRUCE THOMAS
Executive Vice President—
Accounting and Finance
United States Steel Corporation

Directors

WILLIAM O. BEERS
Retired Chairman of the Board, Kraft, Inc. (a food processing company)

JOHN D. deBUTTS
Retired Chairman of the Board, American Telephone and Telegraph Company (communications)

JOHN H. FILER
Chairman, Aetna Life and Casualty Company (insurance)

EDWIN H. GOTT
Former Chairman of the Board, United States Steel Corporation

SHEARON HARRIS
Chairman of the Board, Carolina Power and Light Company (an electric utility company)

RAYMOND H. HERZOG
Chairman of the Board, Minnesota Mining and Manufacturing Company (a diversified manufacturing company)

CHARLES F. MYERS, JR.
Retired Chairman, Burlington Industries, Inc. (textiles)

WALTER H. PAGE†
Retired Chairman of the Board, Morgan Guaranty Trust Company of New York (bank)

ROBERT C. SCRIVENER
Retired Chairman of the Board, Northern Telecom Limited (communications)

MARK SHEPHERD, JR.
Chairman of the Board, Texas Instruments Incorporated (technologically based products and services)

DONALD B. SMILEY
Chairman of the Board, R. H. Macy & Co., Inc. (retail sales)

WILBERT A. WALKER
Former President, United States Steel Corporation

T. A. WILSON††
Chairman of the Board, The Boeing Company (manufacturer of commercial and military aircraft and space vehicles)

EDGAR B. SPEER
Retired as Director April 24, 1979
Died October 13, 1979

HARLLEE BRANCH, JR.
WILLIAM McC. MARTIN, JR.
JOHN M. MEYER, JR.
Retired as Directors May 7, 1979

† Elected to the Board of Directors December 11, 1979

†† Elected to the Board of Directors May 7, 1979

Committees of the Board and Membership

Executive Committee, except to the extent limited by law, exercises, during intervals between the meetings of the Board, all of the powers of the Board of Directors. Members of the Committee are: *Messrs.* Beers, deButts, Gott, Herzog, Myers, Roderick, Roesch, Scrivener, Smiley and Thomas. Mr. Roderick is Chairman.

Audit Committee makes recommendations to the Board of Directors regarding the independent auditors to be nominated for election by the stockholders and reviews the independence of such auditors; approves the scope of the annual audit activities of the independent auditors and the Corporation's internal auditors; approves the audit fee payable to the independent auditors; and reviews audit results. Members of the Committee are: *Messrs.* Beers, deButts, Filer, Page, Shepherd, Smiley and Walker. Mr. Smiley is Chairman.

Organization Committee makes recommendations to the Board of Directors concerning the number of directors and candidates for election as directors, the membership of committees of the Board of Directors and general executive management organization matters. The Organization Committee, in recommending candidates for election as directors, among other considerations, studies from time to time the composition of the Board and endeavors to locate candidates for Board membership whose backgrounds indicate that they have broad knowledge and experience in industry and society in general. The Organization Committee considers also nominees recommended by stockholders for election as director. Such recommendations, together with the nominee's qualifications and consent to be considered as a nominee, should be sent to the Secretary of the Corporation for presentation to the Organization Committee. Members of the Committee are: *Messrs.* deButts, Filer, Gott, Scrivener, Shepherd and Smiley. Mr. Scrivener is Chairman.

Compensation Committee is responsible for making recommendations to the Board on all matters of policy and procedures relating to compensation of executive management, for approving the salaries of officers (other than the officer-directors), and for making awards under the Incentive Compensation Plan. The Committee also grants options under, and administers, the Corporation's 1976 Stock Option Incentive Plan. Members of the Committee are: *Messrs.* Beers, deButts, Filer, Herzog, Scrivener and Wilson. Mr. Filer is Chairman.

Committee on Employee Benefits is authorized to adopt and amend, on behalf of the Corporation, employee benefit plans, to review the activities of United States Steel and Carnegie Pension Fund as administrator of such plans, and to make recommendations to the Board concerning policy matters relating to employee benefits. Members of the Committee are: *Messrs.* Gott, Harris, Myers, Shepherd, Thomas and Walker. Mr. Thomas is Chairman.

Committee on Financial Policy makes recommendations to the Board concerning dividends and matters of financial import and has authority to approve certain borrowings by the Corporation. It also approves the funding policy, accounting policy and amounts funded with respect to the United States Steel Corporation Plan for Employee Pension Benefits (Revision of 1950) as amended and approves the investment guidelines to be followed by, and reviews the performance of, United States Steel and Carnegie Pension Fund as trustee of employee benefit plans for the Corporation. Members of the Committee are: *Messrs.* Beers, Harris, Herzog, Myers, Page, Roderick, Roesch, Scrivener, Thomas, Walker and Wilson. Mr. Roderick is Chairman.

United States Steel Corporation

Other Officers

James E. Chenault, Jr.
Group Vice President—Resource Development

Duncan J. MacLennan
Group Vice President—Chemicals

Earl L. Simanek
Group Vice President—Manufacturing Divisions & Associated Subsidiaries

Robert W. Smith
Group Vice President—Steel

Marion G. Heatwole
General Counsel

Charles G. Schwartz
Secretary and Assistant General Counsel

Bracy D. Smith
Vice President and Comptroller

Raymond D. Ryan
Vice President and Treasurer

Dale L. Armstrong
Senior Vice President—Commercial

J. Robert Ferguson, Jr.
Senior Vice President and Assistant to President

Vice Presidents and General Managers

Giuseppe Colombari	Ores
L. Frederick Gieg, Jr.	Western Steel Division
Jimmy Hill	Central Steel Division
Alvin L. Hillegass	Eastern Steel Division
J. Bruce Johnston	Employee Relations
Dean G. Wilson	Facility Plans, Engineering and Construction

Vice Presidents

Robert J. Alberts	Operations—Central Steel Division
Charles A. Corry	Corporate Strategic Planning
Joseph R. Dembeck	Realty
Robert D. Goldbach	Shipping
Harold C. Haase	Purchasing
C. Allen Headlee	Accounting—Other Divisions
Donald H. Hoffman	Personnel
William E. Lewellen	Financial Services
Earl W. Mallick	Public Affairs
William Miller, Jr.	Labor Relations
Albert A. Monnett, Jr.	Assistant to Chairman, Board of Directors
Peter B. Mulloney	Marketing Services
Harold W. Paxton	Research
Reuben L. Perin, Jr.	Sales—Eastern Steel Division
Warren F. Renner	Accounting—Steel Divisions
Robert R. Ross	Domestic Ore & Stone
Robert L. Schneider	Operations—Eastern Steel Division
John L. Schroder, Jr.	Coal
James D. Short	Benefits Administration
Edward L. Smith	Facility Plans, Estimates & Controls
Ronald P. Tappan	Sales—Central Steel Division
Franklin B. Varner	Transportation and Traffic

Assistant General Counsel

Dominic B. King

Divisions

	PRESIDENT
American Bridge Division *600 Grant Street, Pittsburgh, Pa. 15230*	H. B. Crossfield
Oilwell Division *2001 North Lamar Street, Dallas, Texas 75202*	R. H. Smith
United States Steel Supply Division *13535 South Torrence Ave., Chicago, Ill. 60633*	R. J. Hahn
Universal Atlas Cement Division *600 Grant Street, Pittsburgh, Pa. 15230*	K. D. Simmons
USS Agri-Chemicals *233 Peachtree Street, N.E., Atlanta, Ga. 30303*	C. M. Henderson
USS Chemicals *600 Grant Street, Pittsburgh, Pa. 15230*	W. W. LaRoche
USS Realty Development *600 Grant Street, Pittsburgh, Pa. 15230*	J. R. Dembeck

Principal Subsidiaries

	PRESIDENT
Alside, Inc. *P.O. Box 2010, Akron, Ohio 44309*	J. J. Kaufman (CHAIRMAN)
Bessemer and Lake Erie Railroad Company *P.O. Box 536, Pittsburgh, Pa. 15230*	M. S. Toon
Birmingham Southern Railroad Company *6200 Flintridge Road, Fairfield, Ala. 35064*	M. S. Toon
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